NEW ISSUE—BOOK-ENTRY ONLY **Ratings: See "RATINGS" herein**

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."

Grant County
PUBLIC UTILITY DISTRICT
Excellence in Service and Leadership

$49,865,000
PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON
ELECTRIC SYSTEM REVENUE REFUNDING BONDS, SERIES 2017-N
(MANDATORY PUT BONDS)

Bonds Dated: Date of Delivery **Due: Shown on the inside cover page**

The Bonds are issuable only as fully registered bonds without coupons 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 will not receive certificates representing their interest in the Bonds purchased.

The Bonds will initially bear interest at the Term Interest Rate for the Initial Term Rate Period ending on December 1, 2020. On the Business Day following the end of the Initial Term Rate Period (the "Mandatory Tender Date" and a "Purchase Date"), the Bonds are subject to mandatory purchase. On or after the Par Call Date, the Bonds also are subject to optional redemption and to mandatory tender for purchase upon Conversion to a new Term Interest Rate or to the Daily Interest Rate, Weekly Interest Rate or Index Floating Rate. If the District fails to effect such a Conversion, Bondowners would continue to hold the Bonds at the applicable interest rate. If funds are insufficient to pay the Purchase Price for all the Bonds on the Mandatory Tender Date, the Bonds shall be subject to a Delayed Remarketing Period and bear interest at a Stepped Interest Rate. **No Credit Facility secures payment of the Purchase Price of Bonds. This Official Statement describes the Bonds only during the Initial Term Rate Period.** See the inside cover page of this Official Statement for the maturity schedule, Term Interest Rate, Price, Purchase Date, and Par Call Date for the Bonds. See "DESCRIPTION OF THE BONDS."

Both principal of and interest on the Bonds are payable in lawful money of the United States of America. Interest on the Bonds is payable each January 1 and July 1, commencing January 1, 2018, until the end of the Initial Term Rate Period, prior redemption, or Conversion to a new Term Rate or to another interest rate mode. The principal and Purchase Price of and interest on the Bonds are payable by U.S. Bank National Association, Seattle, Washington as Registrar to DTC, which is obligated to remit such principal, Purchase Price and interest to its broker-dealer participants for subsequent disbursement to Beneficial Owners of the Bonds. See "DESCRIPTION OF THE BONDS—Registration and Payment" and Appendix D—"DTC AND BOOK-ENTRY SYSTEM."

The principal of and interest on the Bonds are payable solely from and secured by the Gross Revenue of the Electric System and other funds pledged therefor by the Bond Resolution, subject to prior application for payment of Operating Expenses. The Bonds are issued on a parity with the Outstanding Parity Bonds, currently outstanding in the principal amount of $194,795,000, of which $50,000,000 will be redeemed with Bond proceeds, and any Future Parity Bonds. See "SECURITY FOR THE PARITY BONDS."

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 NOR THE REVENUES OF ANY UTILITY SYSTEMS OF THE DISTRICT OTHER THAN THE NET REVENUE OF THE ELECTRIC SYSTEM, ARE PLEDGED TO THE PAYMENT OF THE BONDS.

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 Foster Pepper PLLC, Seattle, Washington, Bond Counsel and Disclosure Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington. The Bonds are expected to be delivered on or about November 29, 2017, through the facilities of DTC in New York, New York, by Fast Automated Securities Transfer.

Goldman Sachs & Co. LLC

Dated: November 15, 2017

Public Utility District No. 2 of Grant County, Washington

$49,865,000
Electric System Revenue Refunding Bonds, Series 2017-N (Mandatory Put Bonds)

Term Interest Rate Bonds

Dated Date: Date of Delivery

Initial Yield: 1.66%

Initial Term Interest Rate: 2.000%

Price: 100.911%*

End of Initial Term Rate Period: December 1, 2020

Mandatory Tender Date: December 2, 2020 (Business Day following the end of the Initial Term Rate Period)

Par Call Date: on and after September 1, 2020

$49,865,000 Term Bond due January 1, 2044, CUSIP No. 387874XH8**

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* Priced to par call on the Par Call Date.

** The CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by S&P Global Market Intelligence. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the District and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. Neither the District nor the Underwriter takes responsibility for the accuracy of the 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 responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The 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 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, except as otherwise expressly provided in "CONTINUING DISCLOSURE."

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.

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

Commissioners

Larry Schaapman .... President
Terry Brewer .... Vice President
Bob Bernd .... Secretary
Thomas Flint .... Commissioner
Dale Walker .... Commissioner

Senior Management

Kevin Nordt .... General Manager
Mitch Delabarre .... General Counsel
Jeff Bishop .... Chief Financial Officer
David Churchman .... Chief Customer Officer
Kevin Marshall .... Chief Operating Officer
Bonnie Overfield .... Senior Manager of Finance-Treasurer
Brett Bergeson .... Auditor

Bond and Disclosure Counsel

Foster Pepper PLLC
Seattle, Washington

Municipal Advisor

Public Financial Management, Inc.
Los Angeles, California

Paying Agent, Registrar and Calculation Agent

U.S. Bank National Association
Seattle, Washington

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* 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

$49,865,000
ELECTRIC SYSTEM REVENUE REFUNDING BONDS, SERIES 2017-N (MANDATORY PUT BONDS)

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 (the "Electric System"), the District's Priest Rapids Hydroelectric Project (the "Priest Rapids Project"), which consists of the Priest Rapids Development and the Wanapum Development, and the District's $49,865,000 principal amount of Electric System Revenue Refunding Bonds, Series 2017-N (Mandatory Put Bonds) (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 RCW. The Bonds are authorized by Resolution No. 8862 of the District, adopted on November 14, 2017 (the "Bond Resolution").

The District's Electric System Revenue and Refunding Bonds, Series 2011-I (the "2011 Bonds"), are outstanding in the amount of $77,170,000, and the District's Electric System Revenue Refunding Bonds, Series 2013-J (the "2013 Bonds," and together with the 2011 Bonds, the "Outstanding Parity Bonds"), are outstanding in the principal amount of $67,625,000. In addition, the District's $50,000,000 principal amount of Electric System Revenue Bonds, Series 2014-K (SIFMA Index) (the "2014 Bonds"), will be redeemed with Bond proceeds. The Bonds, the 2011 Bonds, the 2013 Bonds and bonds issued on a parity therewith pursuant to the Bond Resolution ("Future Parity Bonds") are hereinafter referred to as the "Parity Bonds." In addition, the District has outstanding $50,000,000 principal amount of Electric System Revenue Bond, Series 2016-L and $50,000,000 principal amount of Electric System Revenue Bond, Series 2017-M (collectively, the "Junior Lien Bonds"), which have a lien on Net Revenue junior to the Parity Bonds.

Certain capitalized words and phrases used in this Official Statement have the meanings as defined in the Bond Resolution, unless the context clearly indicates that another meaning is intended. See APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Certain Definitions."

PURPOSE AND APPLICATION OF BOND PROCEEDS

Purpose of the Bonds

The Bonds are being issued to redeem the 2014 Bonds on the date of issuance of the Bonds and to pay costs of issuance of the Bonds.

Application of the Bond Proceeds

The proceeds of the Bonds are expected to be applied as follows:

Sources and Uses

Sources of Funds		
Principal Amount of the Bonds	$	49,865,000
Original Issue Premium		454,270
Total Sources of Funds	$	50,319,270
Uses of Funds		
Deposit to Bond Fund for the 2014 Bonds	$	50,000,000
Underwriter's Discount and Issuance Costs(1)		319,270
Total Uses of Funds	$	50,319,270

(1) 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 a contingency amount.

DESCRIPTION OF THE BONDS

The following information concerning the Bonds describes the Bonds during the Initial Term Rate Period only and does not purport to describe information concerning the Bonds while bearing interest in any other interest rate mode authorized by the Bond Resolution. Prior to any Conversion of the Bonds from the Initial Term Interest Rate to a different interest rate mode, the Bonds will be subject to mandatory tender for purchase. In connection with the remarketing of the Bonds after such mandatory tender, the District intends to cause a new Official Statement or other disclosure document setting forth the material terms of the interest rate mode or modes into which the Bonds will be converted to be prepared and delivered to prospective investors.

General Terms; Initial Period

The Bonds will be dated the date of their initial delivery (the "Issuance Date") and will mature on January 1 in the year as shown on the inside cover page. The Bonds will initially bear interest at a fixed Term Interest Rate as set forth on the inside cover page for the Initial Term Rate Period ending on December 1, 2020, subject to prior optional redemption or Conversion to a new Term Interest Rate or to another interest rate mode, as described herein. This Official Statement describes the Bonds only during the Initial Term Rate Period.

The Bonds will be issued in denominations of $5,000 or any integral multiple thereof ("Authorized Denominations"). The Bonds will bear interest from the Issuance Date (or most recent date to which interest has been paid thereon), payable on each January 1 and July 1, commencing on January 1, 2018 (each, an "Interest Payment Date"). Interest on the Bonds will be computed on the basis of a 360-day year composed of 12 30-day months during the Initial Term Rate Period. Interest is paid to the registered owners as of the Record Date, which for the Bonds in the Initial Term Rate Period is the 15th day immediately preceding an Interest Payment Date.

At the end of the Initial Term Rate Period, the Bonds are subject to mandatory purchase and Conversion to a new Term Interest Rate or to the Daily Interest Rate, Weekly Interest Rate or Index Floating Rate on or after the Par Call Date, as described herein. No Credit Facility secures payment of the Purchase Price of Bonds. If there are insufficient funds to pay the Purchase Price or the District rescinds its election to effect a Conversion, then the Bonds at the end of the Initial Term Rate Period shall be in a Delayed Remarketing Period and bear interest at a Stepped Interest Rate. See the inside cover page of this Official Statement for the maturity schedule, Initial Term Rate and yield, price, Mandatory Tender Date and Par Call Date for the Bonds. See "Other Interest Rate Modes and Conditions for Conversion" for a summary of the interest rate modes authorized by the Bond Resolution and the conditions for Conversion.

No Credit Facility secures payment of the purchase price of Bonds while in the Initial Term Rate Period; however, the Bonds are subject to a Stepped Interest Rate. See "Mandatory Purchase at End of Initial Term Rate Period."

Registration and Payment

U.S. Bank National Association, Seattle, Washington, is the initial registrar and paying agent (together, the "Registrar") for the Bonds.

The Bonds will be issued in fully registered form initially in the name of Cede & Co., as 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 below. Purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the "registered owners" or "Bondowners" shall mean Cede & Co. 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 or indirect participant acquires an interest in the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of, interest on and the Purchase Price of the Bonds are payable by wire transfer by the Registrar to DTC, which in turn is obligated to remit such principal and interest to the DTC participants for subsequent disbursements to Beneficial Owners of the Bonds. See APPENDIX D—"DTC AND BOOK-ENTRY SYSTEM."

Termination of Book-Entry Transfer System

If DTC or its successor resigns as the securities depository or if the District determines that it is no longer in the best interests of owners of beneficial interests in the Bonds to continue the system of book-entry transfers through DTC or its successor, the District will deliver at no cost to the Beneficial Owners of the Bonds or their nominees Bonds in registered certificate form, in Authorized Denominations. Thereafter, the principal of or Purchase Price of the Bonds will be payable upon due presentment and surrender thereof at the office of the Registrar. Interest on the Bonds will be payable by check or draft mailed on the Interest Payment Date to the persons in whose names the Bonds are registered, at the address appearing upon the Bond Register on the 15th day of the month prior to such Interest Payment Date or, at the request of the owner of $1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to a bank within the United States.

Transfer and Exchange

As long as DTC (or a successor or substitute depository) is not the registered owner of the Bonds, any Bond may be transferred at the designated office for such purpose of the Registrar by surrender of such Bond for cancellation, accompanied by a written instrument of transfer, in form satisfactory to the Registrar, duly executed by the registered owner in person or by his/her duly authorized attorney, and thereupon the District will issue and the Registrar will authenticate and deliver at the office of the Registrar (or send by registered or first class insured mail to the owner at the owner's expense), in the name of the transferee or transferees, a new Bond or Bonds of the same interest rate, principal amount and maturity, and on which interest accrues from the last interest payment date to which interest has been paid so that there shall result no gain or loss of interest as a result of such transfer, upon payment of any applicable tax or governmental charge.

No Optional Tender

The Bonds are not subject to optional tender by the Beneficial Owners thereof during the Initial Term Rate Period.

Mandatory Tender on or After the Par Call Date

Pursuant to the Bond Resolution, the District has the right at any time on or after the Par Call Date to convert the Bonds from bearing interest at the Initial Term Interest Rate to bearing interest in another Term Interest Rate or other interest rate mode authorized by the Bond Resolution, at which time the Bonds would be subject to mandatory tender for purchase. Any such Conversion must be for all of the Bonds.

Mandatory Tender at End of the Initial Term Rate Period

Pursuant to the Bond Resolution, at the end of the Initial Term Rate Period, the Bonds will be subject to mandatory tender for purchase on the Business Day following the last day of such term Interest Rate Period and the District will convert the Bonds from bearing interest at the Initial Term Interest Rate to bearing interest in any other interest rate mode or another Term Interest Rate.

Purchase Date/Conversion Date

The date chosen by the District on or after the Par Call Date, or, if no such date is chosen, the Business Day following the last day of the Initial Term Rate Period, is a Conversion Date and a Purchase Date, and on that date the Bonds are subject to mandatory tender for purchase by the Registrar at a Purchase Price of par plus accrued interest, if any. The Registrar is required to give notice of mandatory tender of the Bonds to the registered owners of the Bonds (at their addresses as they appear on the Bond Register as of the date of such notice) by written notice not less than 30 days prior to the Purchase Date. The notice of mandatory tender will state: (1) the Purchase Date; (2) that the Bonds are subject to mandatory tender for purchase on the Purchase Date; (3) that registered owners may not elect to retain Bonds; (4) that any Bonds not subject to a book-entry only system must be delivered to the Registrar at or prior to 10:00 a.m., New York City time, on the Purchase Date; (5) that if the registered owner of a Bond subject to mandatory tender for purchase that is not subject to a book-entry only system shall fail to deliver its Bond to the Registrar at the place and on the Purchase Date and by the time specified, or shall fail to deliver its Bond properly endorsed, such Bond shall constitute an "Undelivered Bond"; and (6) that if money sufficient to effect such purchase is provided through (i) the remarketing of the Bonds by the Remarketing Agent or (ii) funds provided by the District, all such Bonds shall be purchased.

Any Bond subject to mandatory tender for purchase that is not subject to a book-entry only system and not delivered to the Registrar at the place and on the Purchase Date and by the time specified, shall constitute an Undelivered Bond. If funds in the amount of the Purchase Price of the Undelivered Bond are available for payment to the registered owner thereof on the Purchase Date and at the time specified, then from and after the Purchase Date and time of that required delivery (1) the Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be outstanding under the Bond Resolution; (2) interest shall no longer accrue on the Undelivered Bond; and (3) funds in the amount of the Purchase Price of the Undelivered Bond shall be held uninvested and without liability for interest by the Registrar for the benefit of the registered owner thereof, to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Registrar at its designated office for delivery of Bonds. **No Credit Facility secures payment of the Purchase Price of Bonds.**

Delayed Remarketing Period; Stepped Interest Rate

If the Purchase Price of all of the Bonds required to be purchased on the Mandatory Tender Date cannot be paid, none of the Bonds will be purchased on such Mandatory Tender Date, Bond owners will retain their Bonds, and a Delayed Remarketing Period will commence on such date. The failure to pay the Purchase Price on such Mandatory Tender Date shall not constitute an Event of Default. During a Delayed Remarketing Period, the following will apply to the Bonds: (1) all of the Bonds will bear interest at the Stepped Interest Rate; (2) the Remarketing Agent will continue to be obligated to remarket the Bonds; (3) the Bonds will continue to be subject to optional redemption by the District as described under "Optional Redemption"; (4) the District, by notice to the Registrar and the Remarketing Agent, may direct a Conversion of the Bonds as described in "Other Interest Rate Modes and Conditions for Conversion"; (5) interest on the Bonds shall continue to be due and payable on each Interest Payment Date and also shall be payable on the last day of the Delayed Remarketing Period; and (6) if the Bonds are successfully remarketed, converted or refunded as described, the registered owners of the applicable Bonds will be obligated to tender their Bonds to the Registrar.

Pursuant to the Bond Resolution, during a Delayed Remarketing Period, the applicable Bonds will bear interest at the "Stepped Interest Rate," which equals 6.0% per annum for 90 days, then 8.0% per annum thereafter.

Optional Redemption

The Bonds are subject to redemption at the option of the District on any Business Day on and after the Par Call Date (September 1, 2020), in whole or in part, at a price equal to the principal amount of Bonds called for redemption, plus interest accrued thereon, if any, to the date fixed for redemption, without premium.

Partial Redemption

If less than all of the Bonds are to be redeemed, the District may select the maturity or maturities to be redeemed. If less than all of the Bonds of any maturity are to be redeemed, so long as DTC or its nominee is the registered owner of the Bonds, the Registrar shall notify DTC that the redemption is to be made pro rata among the owners of the Bonds of such maturity in Authorized Denominations and that partial redemptions of the Bonds are to be determined in accordance with DTC's pro rata pass-through distribution of principal procedures in effect at the time notice of such partial redemption is given. Such redemption payments shall be subject to the rules and procedures of DTC, and neither the District nor the Registrar need provide any assurance that DTC, its Participants or any other intermediaries will be able to allocate redemption payments of the Bonds of a particular maturity among the owners of the Bonds on such a proportional basis.

At all other times, if less than all of the Bonds of a particular maturity are called for redemption, the redemption shall be made pro rata among the owners of the Bonds of such maturity in Authorized Denominations in such manner as the District in its discretion may determine.

At all times the Bonds shall be redeemed in and shall remain outstanding after redemption in Authorized Denominations. Any Bond that is to be redeemed only in part shall be surrendered to the Registrar and there shall be delivered to the registered owner of such Bond a new Bond or Bonds of the same maturity and of any Authorized Denomination as requested by such registered owner in an aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bond so surrendered.

Mandatory Redemption

The Bonds, which are Term Bonds, shall be redeemed prior to maturity (or paid at maturity), no later than January 1 in the years and in the sinking fund installment amounts set forth below (to the extent such Bonds have not been previously redeemed or purchased), by payment of the principal amount thereof, together with the interest accrued thereon to the date fixed for redemption.

Term Bonds

Year	Sinking Fund Installment
2035	$4,555,000
2036	4,645,000
2037	4,740,000
2038	4,830,000
2039	4,930,000
2040	5,030,000
2041	5,125,000
2042	5,230,000
2043	5,335,000
2044*	5,445,000

* Final maturity.

Upon the purchase by the District or redemption of Bonds for which mandatory sinking fund installments have been established, other than by reason of the mandatory sinking fund installment redemption described above, an amount equal to the principal amount of the Bonds so purchased or redeemed shall be credited toward each of the mandatory sinking fund installments with respect to such Bonds of such maturity on a pro rata basis.

Notice of Redemption

So long as the Bonds are held by DTC in book-entry only form, any notice of redemption will be given at the time, to the entity and in the manner required by the Blanket Issuer Letter of Representations between the District and DTC ("Letter of Representations"). During any period in which the Bonds are not in book-entry only form, unless waived by any registered owner of the Bonds to be redeemed, official notice of any redemption of Bonds will be given by the Bond Registrar on behalf of the District by mailing a copy of an official redemption notice by first-class mail, postage prepaid, at least 20 days and not more than 60 days prior to the date fixed for redemption, to the registered owners of the Bonds to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice.

In the case of an optional redemption, the District reserves the right to rescind any redemption notice and the related optional redemption of Bonds by giving a notice of rescission to the affected registered owners at any time on or prior to the scheduled optional 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.

Interest on the Bonds called for redemption will cease to accrue on the date fixed for redemption, except in the case of a rescinded optional redemption as described above or unless payment of that Bond is not made or provided for in full on the date fixed for redemption.

Other Interest Rate Modes and Conditions for Conversion

The District may establish a Conversion Date on or after the Par Call Date upon notice as described under "Purchase Date/Conversion Date." On any Conversion Date, the District may convert the Bonds in whole to a new Term Interest Rate, an Index Floating Rate (electing either the SIFMA Index, the One-Month LIBOR, the Three Month LIBOR or any other index chosen by the District), a Daily Interest Rate or a Weekly Interest Rate.

Opinion of Counsel

On or before the Conversion Date, the District must deliver to the Registrar, the Credit Provider, if any, and the Remarketing Agent, if any, a Favorable Opinion of Bond Counsel to the effect that the Conversion is authorized by the Bond Resolution and will not impair the exclusion of interest on the Bonds from gross income for purposes of federal income taxation (subject to customary exceptions).

Other Conditions for Conversion

Notwithstanding the District's delivery of a notice of Conversion, any Conversion to a new Term Interest Rate or to another interest rate mode will not take effect if: (1) the District has not received the written consent of the Credit Provider, if any; (2) any required Credit Facility is not in effect on the Conversion Date; (3) the District fails to deliver to the Registrar, the Credit Provider, if any, and the Remarketing Agent, if any, the required Favorable Opinion of Bond Counsel; or (4) sufficient funds, including any draws on a Credit Facility, are not available on the Conversion Date to pay the Purchase Price of the Bonds on such Conversion Date.

In any of these events, the Conversion will not occur (whether or not notice of the Conversion has been given to the registered owners), and: (1) the Bonds will be retained by their owners and will bear interest at the Stepped Interest Rate commencing on the proposed Conversion Date; and (2) the Bonds shall be subject to mandatory tender for purchase at the Purchase Price on the first day of each Interest Rate Period and on each proposed Conversion Date for which notice has been given to the registered owners.

"Purchase Price" means the purchase price to be paid to the registered owners of Bonds purchased, which shall be equal to the principal amount thereof tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Accrual Date to the Purchase Date (if the Purchase Date is not an Interest Payment Date).

Defeasance of the Bonds

The District may set aside with a trustee or escrow agent in a special trust account irrevocably pledged to the payment of certain Bonds, cash, Government Obligations and/or Refunded Municipals, if permitted by law, sufficient, together with the earnings thereon, to provide funds to pay when due the interest on part or all of the Bonds and to redeem and retire such Bonds at or prior to maturity in accordance with their terms. Prior to any defeasance, the District must obtain a verification from an independent certified public accountant that the escrowed cash and securities are sufficient to pay the Bonds and an opinion of nationally-recognized bond counsel that such defeasance will not cause interest on any tax-exempt Parity Bonds then outstanding to become subject to federal income taxes. In such event no further payment need be made into the Bond Fund for the payment of the principal of and interest on the Bonds so provided for and such Bonds shall cease to be entitled to any lien, benefit or security of the Bond Resolutions except the right to receive payment from such special account, and such Bonds shall not be deemed to be outstanding for purposes of the Bond Resolution.

The term "Government Obligations" has the meaning given in chapter 39.53 RCW, as amended, currently: (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates, or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, Federal Land Banks, or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or to the extent guaranteed as permitted under any other provision of State law.

Certain Considerations Relating to the Bonds while in the Initial Term Interest Rate

The District's Ability to Pay the Purchase Price of the Bonds on the Scheduled Mandatory Tender Date May Be Limited

The owners of all of the Bonds must tender for purchase all Bonds on the scheduled Mandatory Tender Date. The District has not secured any liquidity facility or letter of credit to support the payment of the Purchase Price of the Bonds on the scheduled Mandatory Tender Date. The ability of the District to pay the Purchase Price will depend on its ability to successfully remarket the Bonds and otherwise to provide funds to pay the Purchase Price.

Failure by the District to pay the Purchase Price of the tendered Bonds on the Mandatory Tender Date will not constitute an Event of Default under the Resolution. In the event sufficient funds are not available for the purchase of all of the Bonds on the Mandatory Tender Date, then none of the Bonds will be purchased and all tendered Bonds will be returned to their respective owners. In such event, the Bonds will remain outstanding and will accrue interest at the Stepped Interest Rate until all of the Bonds are remarketed, redeemed or paid at maturity as further described herein.

The Ability to Sell the Bonds May be Limited

At any time, there may not be an established secondary market for bonds in a Term Interest Rate Period or a Delayed Remarketing Period. In such event, an owner may be unable to sell its Bonds in the secondary market.

During the Initial Term Rate Period, the registered owners of the Bonds do not have the right to optionally tender their Bonds for purchase through a tender process. Investors who purchase the Bonds, whether through the initial issuance or otherwise, should not assume that they will be able to sell their Bonds other than through the mandatory tender process set forth in the Bond Resolution.

The Remarketing Agent

The Remarketing Agent will be appointed by the District prior to the Purchase Date. The Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, subject to the terms of the Remarketing Agreement, without a successor being named under certain circumstances.

SECURITY FOR THE PARITY BONDS

Pledge of Revenues

The Bonds and the interest thereon are payable from the Bond Purchase Fund held by the Registrar and the Electric System Revenue Bond Fund (the "Bond Fund") held by the District. See "Bond Purchase Fund." The District has covenanted: (i) to pay into the Revenue Fund created by Resolution No. 75 all Gross Revenue, except for certain investment income, and (ii) to pay into the Bond Fund amounts sufficient to pay the principal of, premium, if any, interest on and the Purchase Price (if not provided from remarketing proceeds or draws from Credit Facilities) of all Parity Bonds outstanding as the same become due and payable and to provide the required payments into the Reserve Fund. 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. The District has covenanted in the Bond Resolution not to issue any obligations subsequent to the issuance of the Bonds with a lien or charge on the Gross Revenue of the Electric System prior to the lien and charge of the Parity Bonds. See "Electric System Obligation for the Priest Rapids Project Bonds."

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 of Washington, 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 of Washington 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.

Rate Covenant

The District has covenanted to establish, maintain and collect rates or charges for electric energy and other services, commodities and facilities sold, furnished or supplied by the District in connection with the operation of the Electric System which shall be fair and non-discriminatory and sufficient to provide Net Revenue in any Fiscal Year hereafter equal to at least 1.25 times the Annual Debt Service in such Fiscal Year on outstanding Parity Bonds, excluding any capitalized interest thereon in such Fiscal Year. 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. See APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Rate Stabilization Account."

Additional Bonds

The District has covenanted not to issue any obligations subsequent to the issuance of the Bonds with a lien or charge on the Gross Revenue of the Electric System prior to the lien and charge of the Bonds, the 2013 Bonds and the 2011 Bonds. The Bond Resolution permits the issuance of junior lien debt. The District, subject to the limitations set forth in the Bond Resolution, may for any lawful purpose of the District issue bonds having a lien upon the Gross Revenue of the Electric System (subject to prior application for the payment of Operating Expenses and, in certain circumstances, Resource Obligations) equal to the lien of the Parity Bonds if, among other things, a certificate of the District sets forth that the Net Revenue for any 12 consecutive months of the 24 months prior to the date of issuance of such Bonds, divided by the maximum Annual Debt Service in any future fiscal year for all Parity Bonds then outstanding and Additional Bonds then to be issued, results in a percentage that is not less than 125%. For the purpose of this certificate, Net Revenue may be adjusted to include a full l2 months of Net Revenue from any customers added during the 12-month period being considered; 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 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 alternative, the District may 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, will be outstanding are expected to at least equal 1.25 times the Annual Debt Service required to be paid in any Fiscal Year thereafter. See APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Additional Bonds."

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, the Reserve and Contingency Fund or the Reserve Fund, which may be retained in such funds and account.

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 costs associated with 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 (See APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Derivative Products");

(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 into the Bond Fund for the optional or mandatory redemption of Term Bonds;

(4) to make all payments required to be made into the Reserve Fund, 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 the Junior 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 junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds.

Costs associated with 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.

Electric System Obligation for the Priest Rapids Project Bonds

As of October 1, 2017, the District had outstanding $1,030,520,000 principal amount of bonds for the Priest Rapids Project (of which $134,805,000 are junior lien bonds of the Priest Rapids Project). 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 and maintenance 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 junior in rank to all other obligations of the Electric System. See "THE PRIEST RAPIDS PROJECT." For a summary of outstanding debt of the District, see Table 7.

Reserve Fund

2017 Reserve Fund

The Bond Resolution creates a new reserve fund for the Bonds (the "Reserve Fund"). The Reserve Fund Requirement means initially with respect to the Bonds and any Future Parity Bonds secured by the 2017 Reserve Fund an amount equal to zero.

The resolution authorizing Future Parity Bonds may establish a separate Reserve Fund for such Future Parity Bonds or provide that such Future Parity Bonds be secured by a common Reserve Fund. The reserve fund requirement may be recalculated as of the date of the defeasance of any Parity Bonds. If the interest rate on any such Parity Bonds is other than a fixed rate, interest on such Parity Bonds is calculated as provided in the Bond Resolution. The valuation of the amount in the Reserve Fund must be made by the District on each December 31 and may be made on each June 30. Such valuation shall be at the market value thereof (including accrued interest) for obligations maturing more than six months from the valuation date or at par for obligations maturing within six months of the valuation date.

The Reserve Fund Requirements for Future Parity Bonds may be funded either from Parity Bond proceeds or from Gross Revenues over a five-year period following the date of issuance. As an alternative, the District may fund all or a portion of the Reserve Fund through the purchase of Qualified Insurance or a Qualified Letter of Credit. See "Certain Definitions" and "Bond Fund" in APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION" relating to the satisfaction of the Reserve Fund Requirement through the deposit of a letter of credit or insurance policy.

Money in the Bond Fund 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 owner, prior to the date needed or prior to the maturity date of the final installment of principal of the Parity Bonds payable out of the Bond Fund. Earnings on investments in the Bond Fund shall be transferred to the Revenue Fund, except that earnings on investments in the Reserve Fund shall first be applied to remedy any deficiency in such account.

2013 Reserve Fund

As provided in Resolution No. 8682 (the "2013 Bond Resolution"), the resolution authorizing the issuance of the 2013 Bonds, the reserve fund requirement with respect to the 2013 Bonds and any Future Parity Bonds secured by the 2013 Reserve Fund (the "2013 Reserve Fund Requirement") was an amount equal to the lesser of (a) 125% of average Annual Debt Service or (b) maximum Annual Debt Service, and that at the time of issuance of the 2013

Bonds, the 2013 Reserve Fund Requirement did not exceed 10% of the initial principal amount of the 2013 Bonds. Such 2013 Reserve Fund Requirement may be recalculated and determined from time to time. The 2013 Reserve Fund is be held by the District. As of September 30, 2017, the 2013 Reserve Fund had a balance of $6,427,022. The 2013 Reserve Fund is <u>not</u> available to pay the Bonds.

2011 Reserve Fund

As provided in Resolution No. 8572 (the "2011 Bond Resolution"), the resolution authorizing the issuance of the 2011 Bonds, the reserve fund requirement with respect to the 2011 Bonds and Future Parity Bonds secured by the 2011 Reserve Fund (the "2011 Reserve Fund Requirement") was an amount equal to the lesser of (a) 125% of average Annual Debt Service or (b) maximum Annual Debt Service, and that at the time of issuance of the 2011 Bonds, the 2011 Reserve Fund Requirement did not exceed 10% of the initial principal amount of the 2011 Bonds. Such 2011 Reserve Fund Requirement may be recalculated and determined from time to time.

To meet the 2011 Reserve Fund Requirement, the District holds a reserve account surety policy issued by Financial Security Assurance Inc., which is now known as Assured Guaranty Municipal Corp. ("Assured"), in the amount of $6,491,726. Moody's Investors Service Inc. ("Moody's") and S&P Global Ratings ("S&P") currently rate Assured "A2" and "AA," respectively. The surety policy terminates when the portion of the 2011 Bonds that refunded prior bonds of the District are no longer outstanding, which is expected to be on January 1, 2019. In addition, as of September 30, 2017, there was $12,271,146 in the 2011 Reserve Fund. The 2011 Reserve Fund is <u>not</u> available to pay the Bonds. Once the surety policy is terminated (expected to be in 2019), and if the 2011 Bonds are the only Parity Bonds secured by the Reserve Fund, the District will not be required to replenish any deficiency in the 2011 Reserve Fund as the result of such termination.

Bond Purchase Fund

The Bond Resolution creates a Bond Purchase Fund to be held by the Registrar and into which shall be deposited proceeds of a remarketing of Bonds on a Purchase Date, amounts drawn on a Credit Facility, if any, proceeds from bonds issued to refund the Bonds, and any other funds transferred from the District to the Registrar for payment of the Bonds.

Reserve and Contingency Fund

The District has established an Electric System Reserve and Contingency Fund (the "R&C Fund") for the purposes 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 Bonds to the extent, if any, of money in the fund. There was approximately $128.7 million in the R&C Fund as of September 30, 2017. Continued maintenance of the R&C Fund is within the discretion of the Commission. The Rate Stabilization Account is an account within the R&C Fund. See APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Rate Stabilization Account" for a discussion of the use of the Rate Stabilization Account for rate stabilization purposes.

Resource Obligations; Take or Pay Contracts

Upon compliance with certain requirements in the Bond Resolution (See APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Separate System Bonds; Resource Obligations"), 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 energy or the use or lease of generating or transmission facilities (under which agreement payment is not conditioned on the availability of such capacity, energy or facility) or (b) the installment purchase or lease of property which otherwise transfers to the District the burdens and benefits of ownership, unless such agreement specifically provides that the payment obligation of the District thereunder is junior 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

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—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Additional Covenants."

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, the 2013 Bonds and the 2011 Bonds subject to the satisfaction of certain conditions precedent. A "Derivative Product" is a written contract between the District and a third party 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—"SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION—Derivative Products." See "THE ELECTRIC SYSTEM—Power Supply Management and Power Marketing."

No Acceleration Upon Default

Upon the occurrence and continuance of an Event of Default under the Bond Resolution, payment of the principal amount of 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 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 or interest on any of its bonds.

Debt Service Requirements for the Electric System

The District's debt service requirements on the Bonds and the Outstanding Parity Bonds of the Electric System are shown in Table 1. The District's debt service requirements for the outstanding Priest Rapids Project bonds are shown in Table 18. In addition, the District has the Junior Lien Bonds outstanding; the $50,000,000 principal amount of the 2016 Bond matures on April 19, 2019 and the $50,000,000 principal amount of the 2017 Bond matures on September 19, 2020. The resolutions authorizing the Junior Lien Bonds bar acceleration as a remedy for an event of default and establish a 1.1 times coverage of interest on the Junior Lien Bonds. The 2017 Bond includes a three-year term-out option upon an event of default under certain circumstances.

Table 1
DEBT SERVICE REQUIREMENTS OF THE ELECTRIC SYSTEM

Year[1]	Outstanding Parity Bonds Debt Service[2]	The Bonds		Total Debt Service
		Principal	Interest	
2018	$ 7,143,831	--	$ 587,299	$ 7,731,130
2019	21,200,956	--	997,300	22,198,256
2020	21,186,331	--	997,300	22,183,631
2021	21,167,956	--	997,300	22,165,256
2022	21,151,931	--	997,300	22,149,231
2023	18,851,891	--	997,300	19,849,191
2024	5,726,125	--	997,300	6,723,425
2025	5,722,875	--	997,300	6,720,175
2026	5,718,500	--	997,300	6,715,800
2027	5,717,625	--	997,300	6,714,925
2028	5,710,000	--	997,300	6,707,300
2029	5,710,250	--	997,300	6,707,550
2030	5,703,000	--	997,300	6,700,300
2031	5,702,875	--	997,300	6,700,175
2032	5,694,500	--	997,300	6,691,800
2033	5,692,500	--	997,300	6,689,800
2034	5,686,375	--	997,300	6,683,675
2035	5,680,750	$ 4,555,000	951,750	11,187,500
2036	5,675,125	4,645,000	859,750	11,179,875
2037	5,673,875	4,740,000	765,900	11,179,775
2038	5,666,500	4,830,000	670,200	11,166,700
2039	5,657,625	4,930,000	572,600	11,160,225
2040	5,651,625	5,030,000	473,000	11,154,625
2041	5,647,750	5,125,000	371,450	11,144,200
2042	--	5,230,000	267,900	5,497,900
2043	--	5,335,000	162,250	5,497,250
2044	--	5,445,000	54,450	5,499,450
	$213,140,772	$49,865,000	$21,693,349	$284,699,121

(1) Based on a calendar year, including January 1 and July 1 payments made in that year.
(2) Excludes the 2014 Bonds to be repaid with proceeds of the Bonds.
Certain columns may not add due to rounding.

Future Electric System Borrowings

The District may issue Electric System Revenue Bonds in December 2017 to refund a portion of its outstanding Electric System Revenue and Refunding Bonds, Series 2011-I and potentially to finance additional capital expenditures. In addition, if market conditions allow for the refunding of higher rate outstanding Parity Bonds, such refunding will be considered. The District expects to issue approximately $170.7 million in bonds (approximately $62.3 million in parity bonds and $108.4 million in junior lien debt) for the Priest Rapids Project in the next two years. See "THE PRIEST RAPIDS PROJECT—Estimated Capital and Funding Requirements."

THE DISTRICT

General

The District is a Washington State 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 Washington State statutes, the District is administered by a Board of Commissioners (the "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.

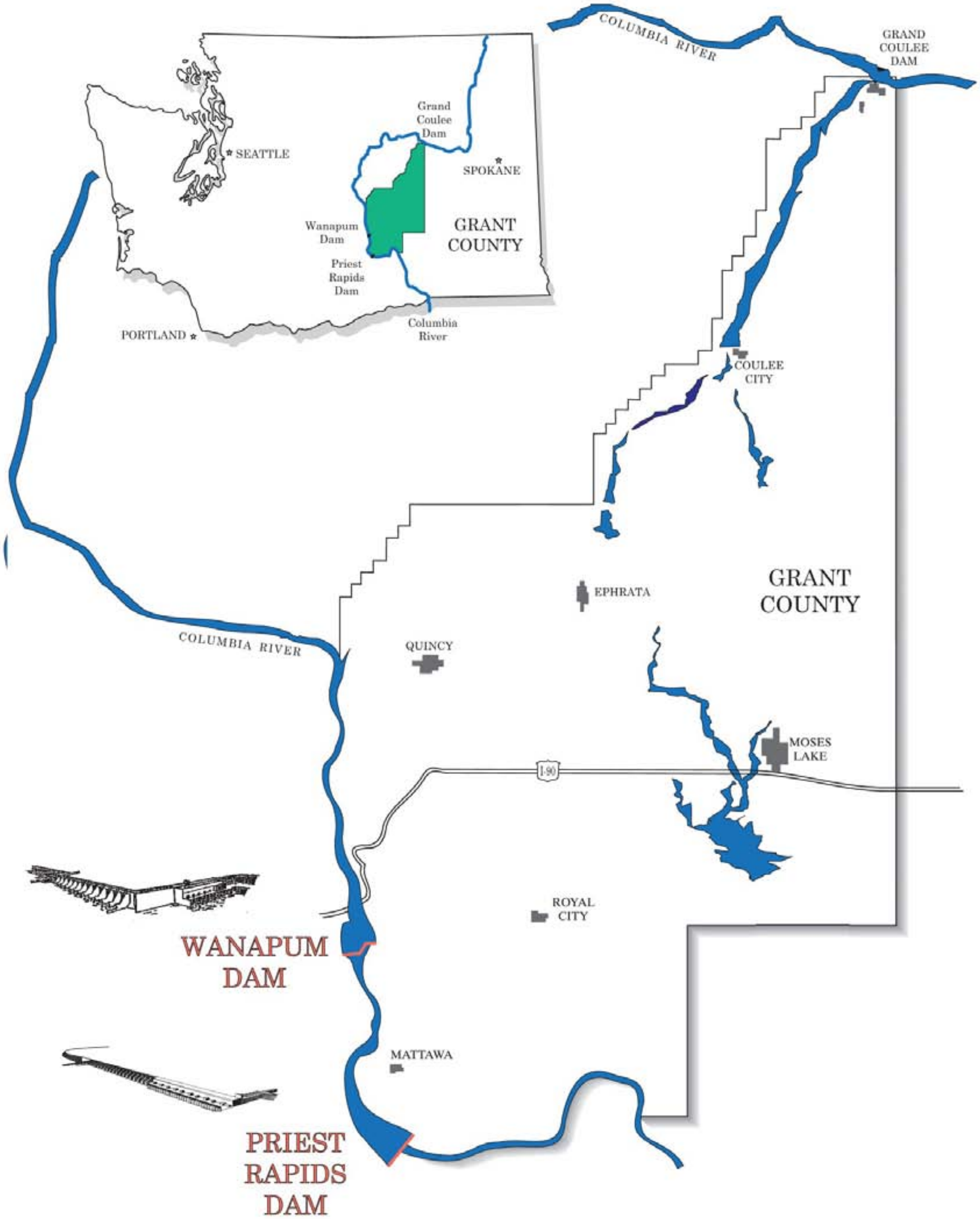
The District's electric utility properties and operations consist of two operating systems, each of which is accounted for and financed separately. The systems are the Electric System and the Priest Rapids Project, which consists of the Priest Rapids Development and the Wanapum Development. The present combined total nameplate generating capacity of the Priest Rapids Project is approximately 2,123 megawatts ("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.

ELECTRIC SYSTEM RETAIL SERVICE AREA



Management and Administration

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

Name	Title	Expiration of Term of Office (12/31)
Larry Schaapman	President	2020
Terry Brewer	Vice President	2018
Bob Bernd	Secretary	2018
Thomas Flint	Commissioner	2020
Dale Walker	Commissioner	2022

Larry Schaapman, President, was appointed to the Commission in 2012. He has been a resident of Grant 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.

Terry Brewer, Vice President, joined the Commission in 2007. He has over 30 years of experience in the electric utility industry. Commissioner Brewer served as Executive Director of the Grant County Economic Development Council for 15 years. He is a board member of Energy Northwest. Commissioner Brewer graduated from Indiana University with a Bachelor of Science degree in Business Management and Administration.

Bob Bernd, Secretary, joined the Commission in 2007. A Grant County native, Commissioner Bernd is retired from a career in moving and storage, waste disposal and recycling. He served 26 years on the Moses Lake Planning Commission, is a former board member and chair for the Boys and Girls Club of the Columbia Basin, former board member and chair of the Grant County Housing Authority and past president and member of the Moses Lake Lions Club. He is a graduate of Washington State University and holds a degree in business management.

Thomas Flint, Commissioner, joined the Commission in 2001. He is a fifth generation farmer actively farming in Grant 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.

Dale Walker, Commissioner, joined the Commission in 2011. He is a 57-year resident of Grant County, having been actively involved in agriculture and agriculture research. Commissioner Walker has served local, state and national organizations representing the agricultural industry. He is a current Northwest Public Power Association Board member. His family was involved in the development of the Columbia Basin Project.

The senior management team of the District is as follows:

Kevin Nordt, General Manager, joined the District in 2004. He was appointed to the position of General Manager in June 2016. Mr. Nordt began his career at the District as the Mid-Columbia Coordinator. In 2006, he became the Director of Power Management with nearly 20 years of experience in the Northwest energy market. He began serving as Chief Financial Officer in 2011. While serving as Chief Financial Officer, Mr. Nordt oversaw the power management, finance and reliability and compliance divisions. He has spent his career working in the Northwest in a variety of engineering, marketing, trading and operations positions. Past regional employment includes positions with Portland General Electric and Energy Northwest. Mr. Nordt is a native of New York and holds a bachelor’s degree in mathematical physics from St. John's University, a master’s degree in nuclear engineering from the University of Wisconsin and additional graduate work in computational finance at Oregon Graduate Institute.

Mitch Delabarre, General Counsel, joined the District in 2009. He has more than 28 years of legal experience, including 22 years working with municipal organizations in Grant 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.

Jeff Bishop, Chief Financial Officer, joined the District in May 2017. His professional experience includes audit manager for Deloitte & Touche, and high-level financial posts at Seattle City Light, Pacificorp and a utility-industry start-up, Gridliance in Chicago. He holds a bachelor's in Business Administration from Washington State University and a bachelor's degree in Zoology from the University of Washington. Mr. Bishop is a licensed certified public accountant.

Dave Churchman, Chief Customer Officer, joined the District in January 2017. His professional experience includes nearly 30 years in utility operations, including 19 years at IDACORP, Inc. and seven years in power-management and top leadership posts at the Eugene Water & Electric Board in Oregon. He holds a Bachelor's Degree in Business Production Management from the University of Idaho and a Masters of Business Administration from Boise State University.

Kevin Marshall, Chief Operating Officer, joined the District in 2007. He brings nearly three decades of experience in energy-industry engineering and management, covering the gamut of generation, from nuclear, gas and coal to wind and hydro. He holds a Bachelor's Degree in Civil Engineering from Renesselear Polytechnic Institute and is a licensed civil and structural engineer.

Bonnie Overfield, Senior Manager of Finance-Treasurer, has been with the District since 2004. She manages the finance division, which includes the areas of accounting, treasury, and debt and financial compliance. Ms. Overfield holds a Bachelor of Arts degree from Eastern Washington University and a Master of Business Administration degree.

Brett Bergeson, Auditor, has been with the District since 2004. He was born and raised in Grant County and has nearly 20 years of experience with agricultural and financial businesses in the area. Prior to being appointed as Auditor in 2013, Mr. Bergeson served as the Manager of Strategic Planning, as the Energy Credit and Risk Analyst, in energy contract negotiations and as a Senior Accountant for the District. Mr. Bergeson holds a Bachelor of Arts degree in Finance from the University of Washington.

Accounting and Financial Statements

The accounting and reporting policies of the District conform to generally accepted accounting principles for municipal governments and are regulated by the Washington State Auditor's Office. The State Auditor's Office has the responsibility to audit the District's financial operations.

Independent Accountants

The financial statements as of 2016 and 2015 and for each of the two years in the period ended December 31, 2016, included in this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein as Appendix B.

District Employees

Following are the number of District employees by function as of June 1, 2017.

District Employees

Function	Number of Regular Employees (Full Time)
Manager's Division	10
Power Management	35
HR/Safety	13
Accounting, Finance and Strategic Planning	19
Hydro Generation	224
Natural Resources	35
Support Services	95
Customer Service	174
Reliability and Compliance	3
Total	608

For the pay period ending June 1, 2017, the District also had 112 part-time and temporary employees which equates to approximately 80 full-time equivalent 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 608 regular employees, as of June 1, 2017, 57% are bargaining unit employees under a Collective Bargaining Agreement ("CBA") with the International Brotherhood of Electric Workers (the "IBEW"). The current IBEW three-year CBA runs through March 31, 2020. There has not been a significant labor stoppage at the District since 1978.

Pensions

Pensions for the District's employees are provided by the Washington State Public Employees Retirement System ("PERS") through three different retirement plan options. These plans are administered by the State. The Washington State Investment Board, a 15-member board created by the Legislature in 1981, invests the funds in the plans. PERS Plan 1 and Plan 2 are defined benefit plans. PERS Plan 3 is both a defined benefit plan (employer share) and defined contribution plan (employee share). 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.

State law requires systematic actuarial based funding to finance the retirement plans. Actuarial calculations to determine employer and employee contributions are prepared by the Office of the State Actuary ("OSA"), a nonpartisan legislative agency charged with advising the Legislature and Governor on pension benefits and funding policy. To calculate employer and employee contribution rates necessary to pre-fund the plans' benefits, OSA uses actuarial cost and asset valuation methods selected by the Legislature as well as economic and demographic assumptions. The Legislature adopted the following economic assumptions for contribution rates beginning July 1, 2017: (1) 7.7% rate of investment return; (2) general salary increases of 3.75%; (3) 3.0% rate of Consumer Price Index increase; and (4) 0.95% growth in membership. The long-term investment return assumption is used as the discount rate for determining the liabilities for a plan. The 10-year annualized return on the investment returns as of June 30, 2017 on the retirement funds was 5.47%.

All State-administered retirement plans are funded by a combination of funding sources: (1) contributions from the State; (2) contributions from employers (including the State as employer and the County and other governmental employers); (3) contributions from employees; and (4) investment returns.

Under State statute, contribution rates are adopted by the Pension Funding Council ("PFC") in even-numbered years for the next ensuing State biennium. The rate-setting process begins with an actuarial valuation by the OSA, which makes non-binding recommendations to the 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 adopts contribution rates, which are subject to revision by the Legislature. The following table outlines the current contribution rates of employers and employees.

Contribution Rates for the 2017-19 Biennium
Expressed as a Percentage of Covered Payroll

	Employer[(1)]	Employee
PERS Plan 1	12.70%	6.00%
PERS Plan 2	12.70	7.38
PERS Plan 3	12.70	Variable [(2)]

(1) Includes a 0.18% State Department of Retirement Systems administration expense fee.
(2) Rates vary from 5.0% minimum to 15.0% maximum based on the rate selected by the PERS 3 member.
Source: Department of Retirement Systems.

In 2016, the District contributed approximately $6,885,000 to the PERS system, on a covered payroll of $61,581,326. The Priest Rapids Project's and the Electric System's shares of these costs are in proportion to their share of direct payroll costs. For additional information, see Note 8 to the Audited Financial Statements for the Years Ended December 31, 2016 and 2015, attached hereto as Appendix B.

Plan Funding Status and Unfunded Actuarial Liability. While the District's contributions represent its full current liability under the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates. It is expected that the contribution rates for employees and employers in the PERS Plans 2 and 3 will increase in the coming years. The OSA website includes information regarding the values, funding levels and investments of these retirement plans.

Historically, OSA used the Projected Unit Credit ("PUC") cost method and the Actuarial Value of Assets ("AVA") to report a plan's funded status. PUC was one of several acceptable measures of a plan's funded status under GASB rules. The PUC cost method projects future benefits under the plan, using salary growth and other assumptions and applies the service that has been earned as of the valuation date to determine accrued liabilities. The AVA is calculated using a methodology which smoothes the effect of short-term volatility in the Market Value of Assets ("MVA") by deferring a portion of annual investment gains or losses over a period of up to eight years.

In September 2015, OSA adopted the Entry Age Normal ("EAN") cost method to estimate accrued pension liabilities for the purposes of reporting funded status. The EAN method represents each plan member's benefits as a constant share of payroll throughout the member's career. This liability estimate incorporates the statutorily set discount rate and reflects demographic assumptions.

During the years 2001 through 2010 the rates adopted by the Legislature were lower than those that would have been required to produce actuarially required contributions to PERS Plan 1, a closed plan with a large proportion of the retirees. The State Actuary's actuarial valuation for PERS Plan 1 as of June 20, 2013 showed a 63% funded ratio (unfunded liability of $4.831 billion) while PERS Plans 2 and 3 had valuation assets that exceed their accrued liability by $537 million (a 102% funded ratio). The State Actuary's actuarial valuation for PERS Plan 1 as of June 30, 2014, showed a 61% funded ratio (unfunded liability of $4.965 billion) while PERS Plans 2 and 3 had valuation assets that exceed their accrued liability by $214 million (a 101% funded ratio). The decrease in the funded status and increase in the unfunded accrued actuarial liability primarily reflect changed demographic assumptions, including projected improvements in mortality rates, and the statutory requirement that the assumed rate of return be reduced to 7.8% from 7.9%.

Using the EAN cost method, the State Actuary's actuarial valuation for PERS Plan 1 and PERS Plans 2 and 3 as of June 30, 2016, showed a 56% funded ratio (unfunded liability of $5,365 billion) and a 87% funded ratio (unfunded liability of $4,497 billion), respectively. Using the EAN cost method, the State Actuary's actuarial valuation for

PERS Plan 1 and PERS Plans 2 and 3 as of June 30, 2015, showed a 58% and 88% funded ratio, respectively. In comparing the funded status as of June 30, 2015 to June 30, 2016, there was a decline from 86% to 84%, largely due to lower than expected investment returns.

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 and 3 member. Assets for one plan may not be used to fund benefits for another plan: however, all employers in PERS are required to make contributions at a rate (percentage of payroll) determined by the OSA every two years for the sole purpose of amortizing the PERS 1 unfunded actuarial accrued liability within a rolling 10-year period. The Legislature established maximum contribution rates that began in 2009 to 2015 and certain minimum contribution rates 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. 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.

The information in this section has been obtained from the District's financial statements and information on the OSA and DRS websites.

District's Share of Pension Liabilities. The District has reported its proportionate share of the net plan asset or liability for each pension plan in which District employees participate in accordance with the Government Accounting Standards Board "GASB" pension accounting and reporting requirements. The liability is based on the actuarial present value of projected benefit payments to periods of employee service, a discount rate that considers the availability of plan assets and recognition of projected investment earnings. The DRS determines each participating employers' proportionate share of the plan liability and OSA determines each plan's accounting valuation. The GASB rules impact accounting and reporting of pensions in the District's financial statements and not the funding status of the plans calculated by OSA or pension contribution rates that are set by the State Legislature.

DRS has calculated the collective net pension liability for the various retirement plans based on the GASB reporting requirements as well as the District's share of such liability. Net pension liability equals the total pension liability (a measure of the total cost of future pension benefit payments already earned, stated in current dollars) minus the value of the assets in the pension trust that can be used to make benefit payments. Contributions from plan members and employers are assumed to continue to be made at contractually required rates, the assumed long-term rate of investment return is 7.50%, the assumed economic inflation is 3.0%, and the assumed salary inflation is 3.75%. The following table shows the District's share of the net pension liability for the plans it participates in for the State fiscal year ended June 30, 2016 based on its share of contributions for the year.

District's Share of Pension Liabilities/(Assets)
For Year Ended June 30, 2016

	Net Liability/(Assets)	District Percent	District's Share of Net Liability/(Assets)
PERS 1(1)	$5,370,471,000	0.524928%	$28,191,106
PERS 2/3	5,034,921,000	0.650080	32,731,014

(1) Includes 0.507303% for PERS 1 UAAL.
Source: DRS CAFR for Fiscal Year Ended June 30, 2016.

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 money purchase 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. Eligible employees can also elect to contribute to the 457 plan as discussed above. The District's matching employer contributions ($0.50 per $1 of employee contributions) are deposited into the 401(a) plan, and is capped at 2% of straight-time employee wages for the pay period. The District made matching contributions of $944,656.24 and $955,431.83 in 2016 and 2015, respectively.

Other Post-Employment Benefits

The District administers a single-employer defined benefit premium program that covers a portion of healthcare insurance for retirees ages 59 1/2 to 65 and their spouses. Under this program, the District pays a percentage of the medical premiums based upon years of service of the retiree, which cannot be more than the premium amount paid for active employees, and is effective until the retiree turns 65 years old. For the years ended December 31, 2016 and 2015, the District paid $142,000 and $188,000 in retiree subsidies. The District's net accrued other post-employment benefit obligation at the year ended December 31, 2016 was $2,490,000.

As of December 31, 2016 and 2015, the District's actuarial accrued liability ("AAL") was $6.2 million and $5.8 million, respectively, all of which was unfunded. The AAL is amortized over a 30-year period and the increase in net OPEB obligation is accrued each year and split between the District's systems, based on current labor allocations. The covered payroll for the years ending 2016 and 2015 were $54 million and $52 million, respectively, and the ratio of unfunded obligation to the covered payroll was 11.5% and 10.3%, respectively. The District has no plans at this time to fund the obligation using an irrevocable trust. See Note 9 to the Audited Financial Statements for the Years Ended December 31, 2016 and 2015, attached hereto as Appendix B.

Insurance

The District 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 the District from losses associated with these risks. The District has established an insurance reserve fund at a minimum balance of $1 million and a maximum of $1.5 million to cover the self-insured portion of liability losses. The insurance reserve fund had a balance of $1.05 million at 2016 year end. The District 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 District real properties, with a deductible of $2.5 million per loss, and subject to policy terms and conditions.

Strategic Planning and Financial Policies

The District operates under a strategic plan approved by the Commission in May 2011, which was updated in January 2013 and is reviewed annually and modified as necessary by staff and the Commission. This strategic plan addresses key District issues associated with complying with the new 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 rate stabilization and continued assurance of meeting the District's financial obligations and goals. 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), Revenue Fund balance at or above $35 million and maintaining the Electric System Reserve and Contingency Fund balance at or above $120 million. Financial parameters for the Priest Rapids Project include a debt service coverage no less than 1.15 times, which is the debt service coverage required by the bond resolutions authorizing the Outstanding Parity Bonds. 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%. The District is targeting debt reduction at the Priest Rapids Project by equity financing from all or a portion of the Electric System's additional funds beyond the Revenue Fund and the Reserve and Contingency Fund goals. Any additional funds could also be used for retiring debt in the Electric System or the Priest Rapids Project. See "CONSOLIDATED FINANCIAL RESULTS."

Investments

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 of Washington. Investments generally are made so that securities can be held to maturity. The District does not derive funds for investment from reverse repurchase agreements. The Bond Resolution provides that money in the Bond Fund, Reserve Fund, Revenue Fund, RR&C Fund and project accounts be invested in any investments permitted under State law.

The following summarizes the market value of the District's investments as of December 31, 2016.

District's Investments

Municipal Bonds	$ 184,588,000
United States Agencies	102,972,000
United States Treasuries	182,624,000
Commercial Paper	28,071,000
Repurchase Agreements	28,000,000
Supranational Institutions	15,423,000
Cash	42,719,000
	$ 584,397,000

For information relating to the District's investments, see Note 2 to the Audited Financial Statements for the Years Ended December 31, 2016 and 2015, 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 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 is tied for the largest number of ASIS International professional security certifications among electric utility providers in the State, including two industry recognized emerging leaders in the field. Members of the Security Department actively participate on the U.S. Department of Homeland Security Dams Safety Coordinating Council, the Western Electricity Coordinating Council Physical Security Working Group, the ASIS International Utilities Security Council, the ASIS International Young Professionals Council, and the Electricity Information Sharing and Analysis Center. The Security Department includes two Computing Technology Industry Association ("CompTIA") certified cybersecurity professionals.

The Security Department conducts at least annual full spectrum security assessments and regularly 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 Cyber Security

The District currently sustains compliance with all regulatory requirements for its information technology ("IT") and Industrial Control System ("ICS") resources. The District handles the constant challenge of mitigating threats related to both IT and ICS through a defense in depth approach. The architecture of its IT and ICS systems provides for both high availability and redundancy while mitigating both current threats and future threats.

As the North American Energy Reliability Corporation Critical Infrastructure Protection ("NERC CIP") regulations outline the compliance requirements revolving around the District's ICS systems, the District has dedicated resources and staff to building a culture of compliance through involvement and dedication to protecting its cyber assets. The cyber security staff dedicated to the reliability of the District's IT and ICS systems are certified, trained and involved in the cyber security 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 cyber security posture but also the western grid. In addition, the District staff consult cyber security guidelines such as the Information Technology Infrastructure Library, the Computer Objectives for Information and Related Technologies, the National Institute of Standards and Technology, and the International Organization of Standardization 27002 for best business practices. The District performs an annual vulnerability assessment to identify any outlying issues and gaps that can be mitigated as an effort to constantly grow its reliability posture.

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 all of Grant County. During 2016, the Electric System operated approximately 3,836 miles of lines and served approximately 46,492 retail customers. As of December 31, 2016, the District's gross investment in the Electric System was $1.1 billion and its net investment was $571 million. The District's Priest Rapids Project is the primary source of power for the Electric System.

Retail Energy Sales and Customers

The Electric System's gross operating revenues for 2016 totaled approximately $250 million. Of this total, approximately $175.8 million (70%) was derived from retail energy sales to an average of 46,149 customers. Sales to other utilities provided approximately $62.5 million of revenues (25% of the total). See "Power Supply Management and Power Marketing." Of the retail customers, approximately 80% were residential customers, providing 23% of all retail energy revenues. 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 since the Electric System's rights to the output of the Priest Rapids Project are set at critical water annually. Retail sales are projected to remain the primary revenue source as load and rates increase compared to relatively consistent year-to-year projected net wholesale revenues.

The 10 largest customers, based on retail revenue of the Electric System for the 12 months ended December 31, 2016, are shown in the following table.

Table 2
ELECTRIC SYSTEM LARGEST CUSTOMERS
(Listed alphabetically)

Customer	Location	Product
Akzo Nobel Pulp & Performance Inc.	Moses Lake	Global paints, coatings and specialty chemicals
Chemi-Con Materials Corp.	Moses Lake	Process aluminum foil for capacitors
Intergate Quincy, LLC	Quincy	Data center
Lamb-Weston, Inc.(1)	Quincy/Warden	French fried potatoes
Microsoft Corp.	Quincy	Data center
Norco, Inc.	Moses Lake	Liquid nitrogen, oxygen and argon
Pacific Coast Canola, LLC	Warden	Canola oil processor
REC Solar Grade Silicon LLC	Moses Lake	Polycrystalline silicon and silane gas
SGL Automotive Carbon Fibers LLC	Moses Lake	Carbon-based products
Yahoo!	Quincy	Data center

(1) Lamb-Weston has facilities at two locations in the County.

The Electric System's 10 largest customers used approximately 43% of total retail energy sold and provided approximately 34% of retail revenues in 2016. The two largest customers used approximately 21% of total retail energy sold and provided nearly 19% of retail revenues in 2016. 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 contain provisions that, when coupled with the low production cost of the Priest Rapids Project, are 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 and manufacturing customers to locate or enlarge their operations. The last five years have seen total District system load growth of 10%, with large industrial and manufacturing growth of just over 15%. REC Solar Grade Silicon LLC ("REC") completed a large expansion to its facilities in late 2009. Since then, REC has idled its old technology plant and is focused on operating its new plant and technologies. Chinese tariff policies have negatively impacted REC's business. The District does not believe that loss of REC load would have a material impact on the District's finances. SGL Carbon Fiber began operations in 2012, and has since expanded to five operating lines. Pacific Coast Canola finished construction of its facility in late 2012 and began processing in early 2013. Data center operations have been an expanding portion of District load over the last decade with Microsoft, Yahoo!, Intuit, Dell, Sabey Data Centers, and Vantage Data Centers utilizing the District's telecommunications infrastructure. The District remains in discussion with several additional customers looking for new and expanded facilities within the County. The District expects an increase in Electric System load of 27% to 35% over the next five to seven years. This growth is driven primarily by load growth within the large industrial and manufacturing sector that is projected to increase by 43% to 55% over the next five to seven years. The industrial and manufacturing growth projection is based on existing signed agreements for new or expanded facilities along with some projection of existing customer growth within the District's customer base. 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. The District manages requests for service in a queue and has experienced a high volume historically of inquiries, many of which do not materialize for a variety of reasons and is the reason why load forecasts are based upon signed agreements. Over the past year, the District has experienced a trend of small business requests in the blockchain sector, and the District is evaluating this large demand from multiple businesses in light of overall system planning and management.

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 3
ELECTRIC SYSTEM
RETAIL CUSTOMERS, ENERGY SALES, AND REVENUES

	2012	2013	2014	2015	2016
Number of Customers (Average)(1)					
Residential	35,547	35,680	35,998	36,347	36,869
Commercial	6,193	6,381	6,476	6,260	6,367
Irrigation	4,624	4,668	4,708	3,052	2,648
Industrial	118	122	126	130	141
Other(1)	120	118	119	120	124
Total Customers	46,602	46,969	47,427	45,909	46,149
Energy Sales (MWh)(1)					
Residential	743,412	774,617	764,290	771,753	725,896
Commercial	457,325	471,432	475,500	477,787	487,340
Irrigation	536,381	541,816	600,030	619,332	567,541
Industrial	2,193,138	2,110,287	2,336,569	2,664,779	2,648,052
Other(2)	6,366	6,357	6,227	6,138	13,408
Total Energy Sales	3,936,622	3,904,509	4,182,616	4,539,789	4,442,237
System Peak (MW)					
Winter	615	653	691	623	717
Summer	665	669	717	777	748
Revenues from Energy Sales ($000)(1)					
Residential	$ 35,898	$ 39,491	$ 39,845	$ 39,127	$ 40,252
Commercial	18,380	20,023	20,720	21,451	22,643
Irrigation	19,501	20,873	23,026	24,481	23,876
Industrial	69,113	68,085	75,049	86,822	87,961
Other(2)	1,019	1,033	1,034	1,034	1,066
Total Revenues	$ 143,911	$ 149,505	$ 159,674	$ 172,915	$ 175,798

(1) Statistics reported by class of service classification.
(2) "Other" includes street lighting, public authorities and non-firm retail energy sales.

The Electric System has experienced a stable residential customer base over the past five years. It is estimated that over 90% 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. The single most important variable in power sales to residential accounts from year to year is weather as it relates to heating and cooling requirements.

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. Residential, commercial and irrigation consumption is significantly affected by weather. To manage these variable resource and system requirements, the District enters into wholesale energy transactions. These include purchases and sales in the forward markets. The District also is routinely a party to a number of other short-term power and capacity contracts. In 2015, the District entered into a five-year transaction with Shell Energy North America that terminates September 29, 2020 and that is intended to shift hydro variability to Shell and create stable revenues for the District. See "Sale of All of the District's Share of Priest Rapids Project Output"

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.

The table that follows summarizes wholesale power sales, including the portion of the District's share of the Priest Rapids Project's output in excess of the Electric System's needs, and the average price for the calendar years 2012 through 2016. For information on 2017 to date, see "Management's Discussion of Results."

Table 4
ELECTRIC SYSTEM
WHOLESALE ENERGY SALES(1)

	2012	2013	2014	2015	2016
Wholesale Energy Sales ($000)(1)(2)	$ 61,782	$ 79,363	$ 81,078	$ 82,073	$ 62,521
Total MWh(2)(3)	2,334,279	2,554,266	2,142,561	2,526,466	1,478,254
Average Revenue ($/MWh)(4)	$26.47	$31.07	$37.84	$32.49	$42.30

(1) Sales to other utilities and power marketing entities.
(2) When comparing 2015 to 2016, surplus power available for resale by the District decreased due to the portion of the Priest Rapids Project sold to SENA. Open market purchases made by the District also decreased as SENA provided sufficient power to meet the District's retail load requirements in accordance with the Pooling Agreement. The physical and financial consideration exchanged between the District and SENA under the Pooling Agreement is presented net. See "Sale of All of the District's Share of Priest Rapids Project Output."
(3) Run-off was 120% of average in 2012, 103% of average in 2013 and 2014, 96% of average in 2015, and 98% of average in 2016. Net Energy Production in 2014 decreased due to the Wanapum spillway monolith fracture. See "THE PRIEST RAPIDS PROJECT—Wanapum Spillway Monolith Fracture."
(4) Average Revenue increased in 2016 because proceeds for the Electric System's estimated unmet load from the sale of the Reasonable Portion of the Priest Rapids Project exceeded open market and other power purchases by $8.4 million and was recognized as wholesale energy sales. This also resulted in zero recognized purchased power expense in 2016. Prior to the Pooling Agreement, open market and other power purchases always exceeded these proceeds and resulted in purchased power expense that ranged from $17 million to $55 million from 2012 to 2015. See "Sale of Reasonable Portion."

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 maintained an Energy Risk Management and Reporting Policy which has been adopted by the Commission.

The Energy Risk Management Policy outlines the parameters for transaction, trader and counterparty exposure. Key elements of the policy include:

- sales and purchases shall only be made to meet the District's prospective needs, to dispose of surplus power and to maximize use of the Priest Rapids and Wanapum Development's reservoirs; no speculative sales or purchases are to be made;
- power transactions shall not exceed a duration of 12 months without Commission approval;
- the District's net position in MWhs is projected using a probabilistic forecast for a rolling 120-month period; and position limits are set to ensure prudent action by District personnel;

- counterparty credit must be established and maintained to District requirements or acceptable credit enhancements must be obtained; individual counterparty credit limits have been established and are reviewed by the Risk Oversight Committee and individual credit exposure is monitored in relation to a percentage of total outstanding transactions;

- traders are authorized to execute trades to hedge the District's position, sell surplus power or purchase power where the District is in a deficit position; and

- periodic reports describing all concluded transactions and expected future transactions (priced to current market prices) as compared to the District's adopted budget for that year are reviewed by District management on a frequent basis.

The District believes its adherence to these policies and its controls to assure they are being followed limit the risk of substantial financial loss resulting from the District's power supply management activities.

Credit exposures are monitored routinely on notional and mark-to-market values. 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 within 20 business days 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.

The District has been active in the evaluation and monitoring of the reporting and record keeping requirements set forth by the Dodd-Frank Act. The legislation, enacted in July 2010, aims to prevent another significant financial crisis by creating new financial regulatory processes that enforce transparency and accountability, while implementing rules for consumer protection. While the District is not significantly affected by this legislation, the District, on an annual basis, may have a limited number of transactions related to power that have reporting and/or record keeping requirements to fulfill.

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 63.3% of the capacity and physical output of the Priest Rapids Project.

In January 2015, the District entered into a contract with Avangrid Renewables, Inc. for a 10% slice of the Priest Rapids Project for the term July 1, 2015 through June 30, 2018. The purpose of this sale and an associated schedule of firm, fixed-price power purchases by the District was to lower water volume, operational and market risks. The $83.1 million contract with Avangrid is paid in equal 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 associated schedule of fixed price power purchases was crafted to manage net monthly position price risk in view of the wider portfolio 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 entered into an Agreement for Pooling of Priest Rapids Project Physical Output (the "Pooling Agreement") with Shell Energy North America ("SENA") in September 2015. Under the Pooling Agreement, the District will provide SENA with a portion of the District's 63.3% share of the capacity in the Priest Rapids Project, and SENA 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, SENA will provide certain scheduling services for the District, including managing power schedules, and the District will provide certain flexibility to SENA within the District's control area. The term of the Pooling Agreement will be nearly five years.

The Pooling Agreement provides for the delivery by the District to SENA of 43.3% of the capacity and associated energy of the Priest Rapids Project through June 30, 2016, and 53.3% of the capacity and associated energy from July 1, 2016, through September 29, 2020. 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 SENA to enter into the Pooling Agreement are to enable them to satisfy different peak load demands, accommodate temporary outages, diversify supply, or enhanced 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, SENA 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 SENA'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 SENA 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 SENA 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 SENA 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 PUD, (v) an adjustment related to provide Canadian Entitlement to Bonneville for delivery to Canada, and (vi) Priest Rapid 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.

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 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 (2) 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. In the event of a default, the District would regain the capacity and energy of the Priest Rapids Project.

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 following table shows a comparison of the District's monthly electric rates for selected residential, commercial and industrial loads with the rates charged by certain major municipal and investor-owned Pacific Northwest utilities. The comparative monthly electric bills shown are based on specific rate schedules for each utility; the use of other schedules applicable to particular customers will yield different results. The District's electrical rates are among the lowest in the nation.

Table 5
ELECTRIC SYSTEM
MONTHLY ELECTRIC BILLS COMPARISON[(1)]
As of October 1, 2017
(Winter Rates where applicable)

	Residential (1,500 kWh)	Commercial (30 kW 9,000 kWh)	Industrial (400 kW 150,000 kWh)
The District	$83	$395	$4,994
Washington State Public Utility Districts			
Benton County PUD No. 1	126	596	10,214
Chelan County PUD No. 1	48	260	4,502
Clark Public Utilities	134	718	10,131
Cowlitz County PUD No. 1	128	804	11,394
Douglas County PUD No. 1	48	223	4,180
Franklin County PUD No. 1	135	709	10,270
Grays Harbor County PUD No. 1	167	864	12,994
Kittitas County PUD No. 1	154	826	10,009
Klickitat County PUD No. 1	163	946	9,967
Lewis County PUD No. 1	115	557	8,250
Mason County PUD No. 3	142	756	10,238
Okanogan County PUD No. 1	104	555	9,389
Snohomish County PUD No. 1	156	825	12,635
Washington Cities			
City of Ellensburg	115	619	9,435
City of Richland	115	545	7,573
City of Seattle	197	836	11,945
City of Tacoma	129	724	9,672
Private Power Companies			
Avista	128	934	13,234
Pacific Power (a PacifiCorp Company)	144	792	11,356
Portland General Electric	181	857	11,171
Puget Sound Energy	153	815	13,274

(1) Computed from the rate schedules provided by or found on the websites of the utilities listed. There are some variations in rate schedules and rate classification of the various utilities.

Source: The District and individual utilities.

The following table shows retail rate increases since 2000.

Table 6
ELECTRIC SYSTEM
RECENT RETAIL RATE INCREASES

Date	Percentage Increase
April 1, 2000	3%
April 1, 2003	4
April 1, 2010	4
February 1, 2011	6
January 1, 2012	8
January 1, 2013	6
January 1, 2014	2
January 1, 2015	2
January 1, 2016	2
April 1, 2017	2

The District currently forecasts annual rate increases averaging 2% or less. The Commission has final authority over the timing, frequency and amount of rate modifications.

The Electric System's Power Supply

Since the SENA Pooling Agreement went into effect, the Electric System has obtained the vast majority of its annual resources from SENA. 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 Power Administration Power 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 only 1% of its power from Bonneville to serve loads in the Grand Coulee area which 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. The Federal System currently produces more than one-third of the region's electric energy requirements. 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 at wholesale rates to more than 125 utility, industrial and governmental customers in the Pacific Northwest. Its service area covers over 300,000 square miles and has a population of about 14 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 (5 aMW or roughly 1% of the total District load). The District does not have a contract with Bonneville to serve any other District loads.

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.

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 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 5 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 the Pacific Southwest. 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.

A group of investor and consumer owned utilities, along with Bonneville, created "ColumbiaGrid" in 2006. Currently, this organization, of which the District is a member, is providing transmission planning services to members in the Pacific Northwest. ColumbiaGrid is not a regional transmission organization and provides services on a bilateral, contractual basis.

Nine Canyon Wind Project

The District entered into a power purchase agreement with Energy Northwest for the purchase of 25% of the generating capacity 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, of which $26,150,000 is outstanding and that mature on 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, 2015 and 2016 was $76.46 per MWh and $64.84 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 31,278 MWh and 26,888 MWh of wind generation output from the project in 2016 and 2015, 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 26,001 MWh and 36,286 MWh in 2016 and 2015, 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 21,871 MWh and 23,147 MWh in 2016 and 2015, respectively.

Wapato Hydroelectric Project

The District entered into a long-term purchase power agreement with the Yakama Nation for the output of the Wapato Hydroelectric Project. The Wapato Hydroelectric Project consists of two plants and is located within the boundaries of the Yakama Indian Reservation in Yakima County, Washington, and irrigates about 142,000 acres. The hydroelectric output from the Wapato Hydroelectric Project was approximately 4,195 MWh, 4,282 MWh, 152MWh, and 1,429 MWh for 2013, 2014, 2015, and 2016, respectively. The Wapato Project has not generated during 2017 due to hydrology issues. The output is seasonal and concurrent with the irrigation season that runs from May through October. The rated capacities of the Wapato Hydroelectric Projects are 1.6 MW and 2.5 MW.

Energy Northwest

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 $1.884 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.

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.

Renewable Portfolio Standards

To satisfy the I-937 renewable requirements, the District intends to rely on its share of 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. The

District met its 2012 through 2016 targets for renewable energy under I-937. The District fully expects that its available qualifying renewable generation will continue to meet the requirements of I-937.

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 State's Energy Independence Act (Initiative 937), the District has set a 10-year conservation target (MWh's) that is updated every two years along with a biennial target. These targets are 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 (2014/2015 biennial target) of 34,251 MWhs. The District's achievement toward satisfying this target is currently being audited by the State Auditor's Office pursuant to the provisions of I-937. The 2016/2017 biennial target was set at 27,418 MWh, and, through October of 2017, the District has met the target at an incentive cost of $1,946,577 thus far. Work is underway to prepare the biennial target for 2018/2019.

Climate Change

Federal, regional, state and international initiatives have proposed or adopted various measures to address global climate change. Federal energy legislation could set national standards for renewable energy generation, conservation efforts, and encourage greenhouse gas reduction among other measures. On October 10, 2017, however, the Environmental Protection Agency (EPA) issued a proposed rule to repeal the agency's 2015 final rule (known as the Clean Power Plan) to regulate greenhouse gas (GHG) emissions from existing stationary sources under section 111(d) of the Clean Air Act (CAA). EPA's action is subject to public comment when it is published in the Federal Register. EPA has not determined whether it will propose a replacement rule under CAA section 111(d).

Washington State has adopted legislation affecting emission performance standards, renewable energy procurement targets, conservation, and promoted vehicle electrification along with other measures. The State legislature also set specific GHG reduction targets and required that certain power supply contracts of five years or more comply with certain emission standards. On September 15, 2016, the State Department of Ecology adopted the Clean Air Rule to reduce GHG emissions from the State's largest emitters. While the District's resources are primarily non-emitting hydroelectric power, it is possible that future legislation or agency regulations regarding GHG reduction could impact the District through its power purchase and sales agreements.

Telecommunications - The Wholesale Fiber Optic Network

The District began developing an internal fiber optic telecommunications system in the 1980's. That system now links the Priest Rapids and Wanapum Developments, most of its substations, all local offices and the District's headquarters building. This system created a fiber optics "backbone" which has significant excess capacity. The District began installing a Wholesale Fiber Optic Network (formerly referred to as the "Zipp Network") in its service area starting in 2000. The Wholesale Fiber Optic Network was established to provide wholesale telecommunications services to retail providers of high speed internet, wireless, security, video and telephone services to businesses and residents 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.

As of September 30, 2017, the District's Wholesale Fiber Optic Network was available to 29,798 homes and businesses within the County. Currently 14,410 users subscribe to services from the existing group of retail providers. The Wholesale Fiber Optic Network currently has 16 retail service providers which are small local or regional companies as well as seven 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. The District currently is free from any significant Federal or State regulation with respect to the Wholesale Fiber Optic Network.

The Wholesale Fiber Optic Network is operated and accounted for as part of the Electric System. In 2016 and 2015, the District spent $5.363 million and $7.082 million, respectively, for Wholesale Fiber Optic Network expansion and capital improvements. Through the year ended December 31, 2016, the District had invested more than $169 million in its telecommunications system facilities and equipment. This amount does not include the "backbone" part of the system that was built to serve internal District purposes, or net operating losses incurred by the Electric System with respect to the Wholesale Fiber Optic Network since it was first established. Approximately 70% of the build out was complete as of December 31, 2016. The District experienced a 15.6% growth in wholesale fiber services revenue in 2016 compared to 2015. See Appendix B—"AUDITED FINANCIAL STATEMENTS OF THE DISTRICT AS OF DECEMBER 31, 2016 AND 2015," including in particular Note 11, for additional financial and other information regarding the District's telecommunications system.

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Outstanding Long-Term Debt of the District

The table below lists the outstanding long term debt of the District prior to the issuance of the Bonds.

Table 7
SUMMARY OF OUTSTANDING LONG TERM DEBT OF THE DISTRICT
As of October 1, 2017

System[(1)]	Series	Date of Final Maturity	Principal Amount Original ($000)	Principal Amount Outstanding ($000)	Total Original ($000)	Total Outstanding ($000)
Electric System	2011-I	1/1/2023	$ 156,070	$ 77,170		
	2013-J	1/1/2041	67,625	67,625		
	2014-K	1/1/2044	50,000	50,000[(2)]		
Electric System Junior Lien Bonds[(3)]	2016-L	4/19/2019	50,000	50,000		
	2017-M	9/18/2020	50,000	50,000	$ 373,695	$ 294,795
Priest Rapids Development	2003-Z	1/1/2021	$ 18,450	$ 6,340		
	2005-Z	1/1/2033	43,685	25,620		
	2006-Z	1/1/2036	36,370	29,335	$ 98,505	$ 61,295
Wanapum Development	2003-Z	1/1/2021	$ 20,135	$ 6,920		
	2005-Z	1/1/2018	4,405	365		
	2006-A	1/1/2043	71,395	535		
	2006-Z	1/1/2043	96,845	83,405	$ 192,780	$ 91,225
Priest Rapids Project Parity Bonds	2010-A	1/1/2023	$ 40,265	$ 11,755		
	2010-B	1/1/2018	10,665	1,620		
	2010-L	1/1/2040	173,915	173,915		
	2010-M	1/1/2027	90,000	90,000		
	2010-Z	1/1/2040	34,585	31,995		
	2012-A	1/1/2035	54,510	43,450		
	2012-B	1/1/2023	16,235	10,195		
	2012-M	1/1/2032	42,395	42,395		
	2012-Z	1/1/2035	14,480	12,285		
	2013-A	1/1/2043	69,690	69,690		
	2013-Z	1/1/2043	30,380	28,455		
	2014-A	1/1/2044	150,725	142,935		
	2014-B	1/1/2038	53,440	50,640		
	2015-A	1/1/2043	73,310	71,860		
	2015-B	1/1/2033	17,410	16,620		
	2015-M	1/1/2040	90,000	90,000		
	2017-B	1/1/2031	7,905	7,905		
Priest Rapids Project Junior Lien Bonds[(4)]	2014	1/1/2044	45,500	43,345		
	2015	1/1/2045	27,040	27,040		
	2015B	1/1/2045	7,625	7,625		
	2016	1/1/2047	30,860	30,860		
	2017	1/1/2047	25,935	25,935	$ 1,106,870	$ 1,030,520
Total			$ 1,771,850	$ 1,477,835	$ 1,771,850	$ 1,477,835

(1) In 2010, the Priest Rapids Development and Wanapum Development were combined into one system, the Priest Rapids Project. Bonds issued prior to 2010 are identified in the column by the Development for which they were issued.
(2) These bonds to be repaid with the Bond proceeds.
(3) See "SECURITY FOR THE PARITY BONDS—Debt Service Requirements for the Electric System."
(4) These Priest Rapids Project junior lien bonds were purchased by the District's Electric System as an investment.

Electric System Operating Results

The following table shows the Electric System's historical operating results for fiscal years 2012 through 2016. 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 8
ELECTRIC SYSTEM HISTORICAL OPERATING RESULTS
($000)

Revenues	2012	2013	2014	2015	2016
Retail Energy Sales	$ 143,911	$ 149,505	$ 159,674	$ 172,915	$ 175,798
Miscellaneous Electrical Revenues[(1)]	9,053	17,885	29,580	20,320	12,599
Sales to Other Utilities[(2)]	61,782	79,363	81,078	82,073	62,521
Total Revenues	$ 214,746	$ 246,753	$ 270,332	$ 275,308	$ 250,918
Expenses					
Power Supply Costs[(2)(3)]	$ 107,774	$ 123,897	$ 164,278	$ 141,633	$ 111,017
Operation and Maintenance[(4)]	32,602	35,880	35,936	36,957	35,855
Taxes	10,443	11,776	12,193	13,646	12,865
Total Expenses	$ 150,819	$ 171,553	$ 212,407	$ 192,236	$ 159,737
Net Revenue	$ 63,927	$ 75,200	$ 57,925	$ 83,072	$ 91,181
Interest and Other Income[(5)]	$ 1,273	$ (96)	$ 3,091	$ 4,349	$ 7,561
Transfer to the Rate Stabilization Account[(6)]	--	(38,900)	--	--	--
Revenues Available for Debt Service	65,200	36,204	61,016	87,421	98,742
Less Debt Service[(7)]	(9,464)	(18,007)	(12,152)	(8,291)	(7,719)
Uncommitted Revenues	$ 55,736	$ 18,197	$ 48,864	$ 79,130	$ 91,023
Beginning Working Capital	$ 199,232	$ 176,940	$ 154,047	$ 108,423	$ 97,227
Bond Proceeds – Construction Fund	--	--	50,000	--	50,000
Funds Available for Construction	254,968	195,137	252,911	187,553	238,250
Less Capital Construction	(46,203)	(69,125)	(45,612)	(41,073)	(40,345)
Change in Other Balance Sheet Accounts	(31,825)	28,035	(98,876)	(49,253)	(51,299)
Ending Working Capital[(8)]	$ 176,940	$ 154,047	$ 108,423	$ 97,227	$ 146,606
Reserve and Contingency Fund[(9)]	$ 72,070	$ 120,111	$ 121,783	$ 123,243	$ 125,820
Debt Service Coverage	6.89x	2.01x	5.02x	10.54x	13.20x
Subordinate Lien Bond Debt Service Coverage[(10)]	N/A	N/A	N/A	N/A	378.28x
Retail Energy Sales (MWh)	3,936,622	3,904,509	4,182,616	4,539,789	4,442,237
Average Retail Energy Rate Increase	8%	6%	2%	2%	2%
Average Retail Revenue Requirement (cents/kWh)	3.66¢	3.83¢	3.82¢	3.81¢	3.96¢

(1) The District recognized earned contributions in aid of construction of $4,603,104, $13,222,302, $22,766,657, $11,966,256 and $3,847,424 in 2016, 2015, 2014, 2013 and 2012, respectively.
(2) The majority of the decrease from 2015 to 2016 was due to the Pooling Agreement with SENA that the District entered into on October 1, 2015. See "Sale of All of the District's Share of Priest Rapids Project Output."
(3) The fracture at the Wanapum Dam in 2014 resulted in decreased generation and therefore the District made additional open market purchases to meet load requirements. The decrease in 2016 was due to the Pooling Agreement with SENA that the District entered into on October 1, 2015. See "Sale of All of the District's Share of Priest Rapids Project Output."
(4) Excludes depreciation, amortization and other non-cash items.
(5) The 2013 negative amount is the result of GASB 31 mark-to-market adjustment.
(6) In 2013, pursuant to Commission resolution, $38.9 million was transferred to the Rate Stabilization Account from the Revenue Fund. The Electric System debt service coverage for 2013, before the transfers to the Rate Stabilization Account, was 4.17x.
(7) Due to the 2011 Electric System bond issue and the effect on the timing of debt service payments, the debt service payment due on January 1, 2012 was shown in the prior calendar year.
(8) Includes amounts in the construction funds.
(9) As of December 31, 2016, the balance in the Reserve and Contingency Fund was $125.8 million; $109.6 million of this balance is designated as available for rate stabilization for debt service coverage purposes. In 2013, the District transferred $38.9 million into the Rate Stabilization Account and $9.1 million into the Reserve Contingency Fund.
(10) In 2016, the District issued its Electric System Revenue Bond, Series 2016-L, which is subordinate to the Parity Bonds. The coverage requirement for the Junior Lien Bonds is 1.10 times the interest due in each year.

The following table shows the Electric System's historical energy requirements, resources and power costs for fiscal years 2012 through 2016.

Table 9
ELECTRIC SYSTEM
HISTORICAL ENERGY REQUIREMENTS, RESOURCES AND POWER COSTS

	2012	2013	2014	2015	2016
Annual Energy Requirements (MWh)					
Retail Sales[(1)]	3,910,618	3,906,449	4,182,809	4,541,611	4,442,237
Electrical System Usage	13,412	14,721	16,440	17,427	16,175
Sales for Resale[(2)(3)]	2,334,279	2,554,266	2,142,561	2,526,466	1,478,254
Distribution/Transmission Line Losses	199,481	136,807	80,475	79,896	12,334
Total Energy Requirements	6,457,790	6,612,243	6,422,285	7,165,400	5,949,000
Annual Resources (MWh)					
Priest Rapids Project[(2)]	5,337,812	5,520,331	4,795,499	6,309,509	5,621,831
Quincy Chute Project	33,271	32,359	32,798	36,716	26,370
PEC Headworks Project	23,043	20,739	23,476	23,158	21,876
Bonneville	50,027	58,831	55,151	54,280	61,645
Other[(3)(4)]	1,013,637	979,983	1,515,361	741,737	217,278
Total Energy Resources	6,457,790	6,612,243	6,422,285	7,165,400	5,949,000
Average Power Cost by Resource (cents/kWh)					
Priest Rapids Project[(5)]	1.55¢	1.57¢	2.24¢	1.83¢	1.97¢
Quincy Chute Project	2.88	2.45	2.36	2.01	2.64
PEC Headworks Project	2.71	3.08	2.50	2.77	2.90
Bonneville	3.24	3.47	3.78	2.97	2.56
Annual Power Cost by Resource ($000)					
Priest Rapids Project[(5)]	$ 82,985	$ 86,527	$107,262	$115,384	$110,552
Quincy Chute Project	958	793	773	738	695
PEC Headworks Project	624	638	588	642	634
Bonneville	1,620	2,042	2,083	1,614	1,578
Other[(6)]	14,654	27,626	48,851	15,179	(4,679)
Wheeling	6,933	6,271	4,721	8,076	2,237
Total Power Costs ($000)	$107,774	$123,897	$164,278	$141,633	$111,017
Average Power Costs (cents/kWh)	1.67¢	1.87¢	2.56¢	1.98¢	1.87¢

(1) Reflects total retail energy requirements.
(2) The fracture at the Wanapum Dam resulted in a decrease in generation in 2014.
(3) The District entered into the Pooling Agreement with SENA effective October 1, 2015. When comparing 2015 to 2016, surplus power available for resale by the District decreased due to the portion of the Priest Rapids Project sold to SENA and open market purchases made by the District also decreased as SENA provided sufficient power to meet the District's retail load requirements in accordance with the Pooling Agreement. See "Sale of All of the District's Share of Priest Rapids Project Output."
(4) Increase in 2014 was due primarily to the need to purchase power on the open market as the result of decreased generation from Wanapum Dam as a result of the fracture.
(5) Increase in 2014 was due primarily to the costs related to the fracture at the Wanapum Dam.
(6) By virtue of the Power Sales Contracts, the Electric System's estimated unmet load is met through cash proceeds from the sale of the Reasonable Portion of the Priest Rapids Project, which offset open market purchases made by the District to meet load requirements. In 2016, the proceeds from the sale of the Reasonable Portion exceeded the amount of open market purchases made by the District.

Management's Discussion of Results

The Electric System has historically demonstrated consistently strong financial results with high debt service coverage ratios and a substantial buildup in reserves. The operating results for 2012 to 2016 reflect the benefits of the Power Sales Contracts that went into effect on November 1, 2005. The Power Sales Contracts have effectively enabled the Electric System to meet its load requirements with the low cost power from the Priest Rapids Project. The District produced a positive change in net financial position of $82.2 million, $73.4 million, and $53.5 million during 2016, 2015 and 2014, respectively. Despite the regional challenges of low wholesale power prices, the District was able to add to the financial well-being of the utility. Two key components to this success are the slice contracts and pooling agreement of the Electric System to mitigate the effect of the fluctuation in wholesale power prices and water variability for generation. As of March 2015, the reservoir behind Wanapum Dam was restored to normal operating level. The reservoir had been lowered due to a fracture that was discovered on the upstream side of Wanapum Dam's Spillway in February of 2014. Despite these challenges, the Electric System was able to produce net revenues of $57 million in 2014 and $83 million in 2015. During 2012 through 2016, the District was able maintain a substantial balance in the Reserve and Contingency Fund. See "THE PRIEST RAPIDS PROJECT—Wanapum Spillway Monolith Fracture" and "—Sale of All of the District's Share of Priest Rapids Project Output." The District has always met its debt service coverage covenants and from 2012 to 2016, the Electric System's debt service coverage ranged from 2.01 times to 13.2 times, well in excess of the 1.25 times required by the Electric System bond resolutions.

The Commission approved rate increases of 4%, 6%, 8% and 6% effective January 1, 2010, 2011, 2012 and 2013. In 2014, the District began targeting average rate increases of 2% per year, which would maintain the District's financial position and better align with customers' preference for moderate and predictable rate increases. The Commission approved rate increases of 2% per year effective January 1, 2014, 2015, 2016 and April 1, 2017. The District forecasts annual rate increases averaging 2% in 2018 and subsequent years. These increases are designed to help the Electric System meet requirements for capital improvements, meet increasing costs of generation at the Priest Rapids Project, and increase the reserves of the Electric System. The increase in reserves is to mitigate generation output fluctuations at the Priest Rapids Project due to water availability or spill requirements. Decreases in generation from the Priest Rapids Project below forecast levels require the Electric System to meet its load requirements with market purchases. This exposure to the market is best buffered by adequate reserve funds to help cushion rates from market volatility. These future rate increases may be modified to reflect future financial conditions.

Based on results to date and projections for the remainder of the year, the District expects that debt service coverage on Electric System bonds will be above the 1.25 times coverage requirement for 2017. The District is forecasting the river run-off to be approximately 114.5% of the annual calendar year average.

Capital Requirements

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 expects the cost of these expenditures in 2017-2022 to be approximately $264 million. The District is undertaking capital improvements to serve expected load growth. The District has customer contribution policies that require customers to pay a portion of the cost of the facilities the District installs on their behalf. The improvements are expected to be financed through a combination of revenues and bonds. The Electric System issued its 2017-M Junior Lien Bond in September 2017 in the amount of $50 million to finance a portion of the improvements.

Table 10
ELECTRIC SYSTEM PROJECTED
CAPITAL IMPROVEMENTS PROGRAM 2017-2022

Distribution	$ 138,000,000
Transmission	63,000,000
Fiber	15,000,000
General	48,000,000
	$ 264,000,000

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. In addition to the factors discussed above under "Legislation and Initiatives" and "THE PRIEST RAPIDS PROJECT," such factors include, among others, (1) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (2) changes from a market restructuring and/or implementation of centralized coordinated markets in the WECC, including energy imbalance markets, (3) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (4) changes resulting from a national energy policy, (5) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (6) Federal laws and regulations and congressional inaction, (7) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (8) issues integrating wind generation, (9) cybersecurity and other security breaches, (10) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others, (11) 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, (12) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (13) changes from projected future load requirements, (14) increases in costs and uncertain availability of capital, (15) shifts in the availability and relative costs of different fuels (including the cost of natural gas), (16) sudden and dramatic changes in the price of energy purchased or sold on the open market that may occur in times of high peak demand and/or oversupply in an area of the country experiencing such high peak demand, such as has occurred in California and the Pacific Northwest, (17) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (18) other legislative changes, voter initiatives, referenda and statewide propositions, (19) effects of the changes in the economy, (20) effects of possible manipulation of the electric markets, (21) natural disasters or other physical calamities, including, but not limited to, earthquakes, mudslides, wind storms and floods, (22) man-made physical and operational disasters, including, but not limited to, terrorism, cyber attacks and collateral damage from untargeted computer viruses, (23) failures or problems with dams and other equipment and infrastructure and (24) changes to the climate. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The District is unable to predict what impact such factors will have on its business operations and financial condition. This Official Statement includes a brief discussion of certain of these factors. 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—"AUDITED FINANCIAL STATEMENTS OF THE DISTRICT AS OF DECEMBER 31, 2016 AND 2015." The following is a brief summary of some of the consolidated operating results of the District.

Table 11
ELECTRIC SYSTEM AND PRIEST RAPIDS PROJECT CONSOLIDATED HISTORICAL OPERATING RESULTS
($000)

	2012	2013	2014	2015	2016
Revenues					
Sales to Power Purchasers at Cost	$ 52,353	$ 55,641	$ 61,099	$ 51,083	$ 40,001
Retail Energy Sales	143,911	149,505	159,674	172,915	175,798
Miscellaneous Electrical Revenues(1)	9,055	17,885	29,580	20,320	12,599
Sales to Other Utilities	61,782	79,363	81,078	82,073	62,521
Total Revenues	$ 267,101	$ 302,394	$ 331,431	$ 326,391	$ 290,919
Total Expenses(2)	$ 128,410	$ 151,035	$ 174,752	$ 160,093	$ 125,619
Net Revenues	$ 138,691	$151,359	$ 156,679	$ 166,298	$ 165,300
Interest and Other Income	3,477	(236)	7,432	4,600	10,008
Federal Rebates on Revenue Bonds	7,809	7,712	7,770	8,214	10,545
Extraordinary Expense(3)	--	--	(17,947)	(4,359)	9,896
Transfer to Rate Stabilization Account(4)	--	(38,900)	--	--	--
Revenues Available for Debt Service	$ 149,977	$ 119,935	$ 153,934	$ 174,753	$ 195,749
Less Debt Service(5)(6)	$ 89,845	$ 99,252	$ 97,713	$ 92,704	$ 99,381
Debt Service Coverage	1.67x	1.21x	1.58x	1.85x	1.97x
Debt Service Coverage before Rate Stabilization Transfers	--	1.60x	--	--	--
Utility Plant, Net of Accumulated Depreciation and Amortization	$1,515,539	$1,689,361	$1,804,711	$1,881,265	$1,953,628
Outstanding Long-Term Debt	$1,080,675	$1,152,740	$1,251,755	$1,306,020	$1,325,105
Debt to Plant Ratio	71%	68%	69%	69%	68%
Unrestricted Cash(7)	$ 143,133	$ 218,221	$ 190,408	$ 208,141	$ 263,101

(1) The District recognized earned contributions in aid of construction of $4,603,105, $13,222,302, $22,766,657, $11,966,256 and $3,847,424 in 2016, 2015 2014, 2013 and 2012, respectively.
(2) Excludes noncash items of depreciation and amortization.
(3) Excludes $3.322 million of noncash portion of extraordinary expense related to permanent write down of the original spill way cost.
(4) In 2013 $20 million was transferred to the Rate Stabilization Account from the Revenue Fund.
(5) Due to the 2011 Electric System bond issue and the effect on the timing of debt service payments, the debt service payment due on January 1, 2012 was shown in the prior calendar year.
(6) Debt service on the Priest Rapids Project Junior Lien Bonds is eliminated on a consolidated basis because the Electric System purchased these bonds.
(7) See Note 2 in the District's Audited Financial Statements attached as Appendix B.

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 956 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 1,167 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.

Energy Production and Cost

The following table shows the energy production for the Priest Rapids Project for the years 2012 to 2016. The major factors affecting Average Cost are annual variations in Columbia River water flows, and operating costs which include increased debt service.

Table 12
PRIEST RAPIDS PROJECT HISTORICAL ENERGY PRODUCTION

	2012	2013	2014	2015	2016
Priest Rapids Project					
Net Peaking Production (MW)	1,756	1,823	1,687	1,804	1,745
Net Energy Production (000's MWh) (1)	8,748	8,945	7,755	8,678	9,193
Annual Availability Factor(2)	86%	86%	87%	87%	85%
Plant Factor(3)	64%	63%	57%	61%	66%
Average Cost ($/MWh)(4)	$15.47	$15.89	$21.61	$18.04	$16.14
Bonneville Power PF Rate ($/MWh)(5)	$30.50	$31.00	$31.50	$31.50	$33.75

(1) Run-off was 120% of average in 2012, 103% of average in 2013 and 2014, 96% of average in 2015 and 98% of average in 2016. The Net Energy Production in 2014 decreased due to the fracture in the Wanapum Dam. See 'Wanapum Spillway Monolith Fracture."
(2) 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.
(3) 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.
(4) For 2013, the average cost will not match the overstated number reported of $16.31 in the 2014 audited financial statements issued in April 24, 2015, due to a calculation oversight. The fracture at the Wanapum Dam increased operating costs for 2014.
(5) Bonneville's published Priority Firm power rates.

Based on weather conditions and river run-off to date, it is expected that Columbia River run-off in 2017, will be approximately 114.5% of the annual calendar year average. The District expects the 2017 average cost ($/MWh) to be $18.50.

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 foreseeable future and under most water conditions and provide excess power above load 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 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 13
PARTICIPATION IN COSTS OF PRIEST RAPIDS PROJECT—YEAR ENDED DECEMBER 31, 2016

Power Purchaser	Percent Share	Priest Rapids Project Nameplate Rating[1] (MW)
PacifiCorp Electric Operations	6.50%	137.995
Portland General Electric	6.50	137.995
Puget Sound Energy, Inc.	3.75	79.613
Tacoma Power	1.44	30.571
Seattle City Light	1.42	30.147
Avista Corporation	2.86	60.718
Public Utility District No. 1 of Cowlitz County	0.84	17.833
Eugene Water and Electric Board	0.71	15.073
Other Power Purchasers[2]	2.55	54.137
The District's Electric System	73.43	1,558.918
Total	100.00%	2,123.000

(1) Based on installed nameplate rating of 2,123 MW (this rating does not match the combined nameplate rating of 2,073 MW hours reported in Management's Discussion and Analysis of the 2016 audited financial statements due to a transposition error). 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 Power Sales Contracts. The total annual nameplate rating may change depending on the upgrades to the Priest Rapids Project.

(2) 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.

The Power Sales Contracts provide that each Power Purchaser will be 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 (currently 15% of Annual Debt Service) 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 Obligation 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 has entered into a three-year slice contract with Avangrid Renewables 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 Shell Energy North America for the delivery of the Electric System's remaining share of output of the Priest Rapids Project to Shell in exchange for Shell 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 auction of the Reasonable Portion. The following table summarizes the auction winners from 2012 through 2017.

Table 14
REASONABLE PORTION AUCTION WINNERS

Period Covered	Auction Winner	Slice of Priest Rapids Project	Auction Price Priest Rapids Project	Total Reasonable Portion Revenues Generated[1]	Amount ($) of Estimated Unmet District Load Used by the Electric System
12 mos. ending Dec. 2012	PPL Energy Plus, LLC	10.14%	$25,900,819	–	–
12 mos. ending Dec. 2012	Powerex	10.14	24,049,915	$73,928,072	–
12 mos. ending Dec. 2013	TranAlta Energy Mkg	10.14	29,200,000	–	–
12 mos. ending Dec. 2013	Powerex	10.14	28,139,253	84,863,226	–
12 mos. ending Dec. 2014	Morgan Stanley	10.14	30,311,100	–	–
12 mos. ending Dec. 2014	Powerex	10.14	30,688,504	90,280,618	$ 860,528
12 mos. ending Dec. 2015	Morgan Stanley	10.14	27,769,716	–	–
12 mos. ending Dec. 2015	Powerex	10.14	25,668,026	79,118,513	16,243,684
12 mos. ending Dec. 2016	Powerex	6.38	13,261,000	–	–
12 mos. ending Dec. 2016	TranAlta Energy Mkg	6.38	13,051,888	61,864,157	22,331,156
12 mos. ending Dec. 2017	Powerex	6.38	14,590,000	–	–
12 mos. ending Dec. 2017	Morgan Stanley	6.38	13,744,889	66,618,078	27,158,062

(1) 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.

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 were $860,528, $16,243,684, $22,331,156, and $27,158,062 for 2014, 2015, 2016, and 2017, respectively. In 2012 and 2013, the Electric System did not need to use Reasonable Portion Revenues because it did not have an EUDL.

Priest Rapids Project Output

The actual amounts of energy sold to the Power Purchasers for the fiscal years 2012 through 2016 are shown in the following table. During the years 2012 through 2016, the Priest Rapids Project delivered to the Power Purchasers and the District an average of 8,663,820 MWh of net energy annually. See "Coordination Agreements" and "FERC License" for a description of certain of the factors that result in the net energy figures.

Table 15
PRIEST RAPIDS PROJECT HISTORICAL ENERGY SALES
(MWh)

	2012	2013	2014	2015	2016
Gross Generation[(1)]	9,901,175	10,099,590	8,396,060	9,615,304	10,096,515
Plus: Pond Transfer[(2)]	(169,450)	(63,339)	(83,447)	45,928	84,956
Total Dissolved Gas Spill Return[(3)]	44,966	2,986	-	--	1,605
Less: Rock Island Encroachment[(4)]	(673,073)	(662,129)	(191,130)	(505,936)	(510,729)
Coordination Exchange[(5)]	3,895	2,386	(13,621)	8,510	849
Less: Canadian Entitlements[(6)]	(515,432)	(505,693)	(499,218)	(504,198)	(506,282)
Less: Spill Past Unloaded Units[(7)]	155,457	71,610	146,636	18,158	26,192
Net Energy to Purchasers	8,747,538	8,945,411	7,755,280	8,677,766	9,193,106
Max. One-Hour Production (MW)	1,756	1,823	1,687	1,804	1,745
Plant Factor[(8)]	64%	63%	57%	61%	66%
Annual Availability Factor[(9)]	86%	86%	87%	87%	85%
Disposition of Net Energy					
District's Electric System	5,337,812	5,520,331	4,795,499	6,309,509	5,621,831
PacifiCorp Electric Operations	194,845	128,302	83,346	88,272	91,474
Portland General Electric Co.	765,075	803,343	683,141	760,557	808,078
Puget Sound Energy, Inc.	79,076	72,986	50,302	53,753	60,243
City of Seattle	36,381	33,205	21,960	23,696	25,249
City of Tacoma	37,355	34,846	22,732	25,362	26,981
Avista Corporation	332,203	346,970	266,585	318,181	343,757
Cowlitz County PUD	21,358	19,326	13,062	14,338	14,808
Eugene Water & Electric Board	17,121	16,316	11,829	13,154	14,432
Other Power Purchasers[(10)]	1,926,312	1,969,786	1,806,824	1,070,944	2,186,253
Total	8,747,538	8,945,411	7,755,280	8,677,766	9,193,106

(1) Excludes station service energy requirements. Variations from year to year are a result of changing fish spill requirements and Columbia River flows. 2014 was affected by the drawdown of the Wanapum reservoir during the fracture repair. See "Wanapum Spillway Monolith Fracture."
(2) Transfers of generating capability to or from neighboring hydroelectric projects.
(3) Energy received as offset for off-system total dissolved gas spill management coordination.
(4) 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. The 2014 lowering of the Wanapum reservoir to repair the fracture decreased the encroachment obligation.
(5) Priest Rapids Project energy exchanged by the District with parties to the Mid-Columbia Hourly Coordination Agreement.
(6) Computed power benefits produced at the Priest Rapids Development as a result of upstream Canadian storage.
(7) Spill among the Mid-Columbia Projects is reallocated based on the requests of the participants through an hourly coordination calculation.
(8) Gross generation divided by the maximum one-hour production divided by 8,760 (the hours in one year).
(9) 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.
(10) 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.

Certain columns may not add due to rounding.

For a discussion of Wanapum Development operations and availability since February 27, 2014, see "Wanapum Spillway Monolith Fracture."

Coordination Agreements

A number of publicly and privately owned utilities in the Pacific Northwest, including the District, have joined with Bonneville, the United States Army Corps of Engineers and the United States Bureau of Reclamation in a long-term Pacific Northwest Coordination Agreement. This agreement became effective on January 4, 1965, and a replacement agreement has been executed that, among other things, extends the term to 2024.

In 1973, the District entered into the Mid-Columbia Hourly Coordination Agreement to provide for coordination of the two federal and five non-federal hydroelectric projects on the Mid-Columbia portion of the Columbia River. The non-federal projects consist of the Priest Rapids and Wanapum Developments, two projects owned by Public Utility District No. 1 of Chelan County and one owned by Public Utility District No. 1 of Douglas County. The District is designated as the "central" control point under the contract. The agreement calls for analyzing the total electric requirements of the non-federal plants and allocating generation to individual plants in a manner that results in less fluctuation of reservoirs at each dam, operation of the reservoirs at a higher average level and greater total power production. This agreement expired June 30, 2017. The three parties to the Mid-Columbia agreement evaluated collectively and separately the pros and cons of the existing coordination agreement. The parties felt that the antiquated agreement established in the 1970's had not kept pace with changes in the industry and no longer represented the most economical outcomes for each participant. A bridge agreement will continue the Mid-Columbia Hourly Coordination until December 31, 2018. Public Utility District No. 1 of Douglas County did not sign the bridge agreement and will no longer participate in hourly coordination. The three entities continue to coordinate as is required by other agreements such as the Hanford Reach agreement and look to optimize generation.

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 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. The Treaty can be terminated with ten years notice. To date, neither the United States nor Canada have provided the necessary ten-year notice to terminate the Treaty, thus likely extending the Treaty power obligations beyond 2024. The United States entity and Canadian entity are each performing studies to assist their respective governments in determining whether to continue, amend, or terminate the Treaty after 2024. On December 13, 2013, the United States entity sent a final regional recommendation concerning the future of the Treaty to the United States Department of State. In general, the Regional recommendation is to modernize the Treaty to more fairly reflect the distribution of operational benefits between the

United States and Canada; to ensure that flood risk management, an economical and reliable power supply, and other key river uses are preserved; and to address key ecosystem functions in a way that complements the significant investments made to protect fish and wildlife over the past three decades. The final recommendation submits that the Pacific Northwest and the nation would benefit from modernization of the Treaty post-2024. The United States government is now in the process of formally taking up the question of the post-2024 future of the Treaty. That process has begun with a federal interagency review under the general direction of the National Security Council on behalf of the President of the United States. As shown in Table 15, 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.

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 401 Water Quality Certification issued by the State of Washington Department of Ecology ("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.

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. The capital costs for these measures for 2017-2022 is estimated at $8.1 million.

Section 401 Water Quality Certification

As a condition to obtaining the License, the District obtained a certification from Ecology under Section 401(a)(1) of the Clean Water Act ("CWA"). 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 $1,500,000) 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 as part of the relicensing application, which was approved when the license was issued in 2008. A required update of this plan was developed in 2015 and 2016 and was submitted to FERC on April 1, 2017. Approval of the plan is pending. 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. By the end of 2018, the District will have invested more than $50 million in capital development of these recreation sites and $1.5 million in annual operations and maintenance, as required by the License. In addition, the License requires 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 includes issuing and monitoring non-project uses of Priest Rapids Project lands, including the leasing of 38 acres of Project property for private residential use within the Crescent Bar Recreation Area. The District reached a settlement with three homeowners associations on Crescent Bar Island in July 2015. This settlement ended nearly four years of litigation between the District and the island residents. FERC approved the leases as a non-project of project lands in November 2016, as well as an amendment to the District's Recreation Resources Management Plan to develop recreation facilities within the Crescent Bar Recreation Area in September 2016. This capital development work commenced in November 2016 and is expected to be completed by fourth quarter 2018.

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. Over $9.0 million is budgeted for 2017-2022 for cultural resource management.

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 cost of this project from 2012-2015 was $20.7 million. A grand opening of the facility took place in the fourth quarter of 2015. The O&M budget for the NWHC programs is projected at $1.5 million for 2017-2022.

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, to cooperatively develop Pacific lamprey and white sturgeon management plans with the District, and to represent 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 $75,649, $468,733, $2,288,984, $2,266,513, and $422,898 for 2016, 2015, 2014, 2013, and 2012, respectively. These costs are included in Annual Power Costs for the Priest Rapids Project. From 2010 through 2015, 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 2017 is $600,000 and for 2018 to 2022 is forecasted between $300,000 to $700,000.

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 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. 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, Yakama Nation, United States Fish and Wildlife Service and the Colville Confederated Tribe. The agreement replaced an existing 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.

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 $20.8 million into the variable No-Net Impact fund, which is based on annual salmonid mortality within the Priest Rapids Project for years 2006-2017. Contributions into the fixed Habitat funds for years 2006-2017 total slightly over $16.0 million.

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.

Wanapum Spillway Monolith Fracture

The District has completed work to repair the fracture that was discovered in February 2014 on the upstream side of Wanapum Dam's Spillway Monolith Number 4 ("Monolith No. 4"). The fracture ran the length of the 65-foot-wide monolith and was two inches tall at its widest point. All repair work was completed and the Wanapum Dam returned to normal operations in March 2015.

Following an investigation, it was determined that additional concrete or reinforced steel should have been included in the original construction of Monolith No. 4 and all of the other 12 monoliths on Wanapum Dam. A mathematical error during the pre-construction design of Wanapum Dam was the primary contributing factor to the fracture. No other mathematical errors were discovered by the experts performing the investigation.

During the repair, Wanapum Dam continued to operate and the District continued to meet its obligations with regard to fish passage, flood-control, cultural resource protection, public safety, and electric generation. At its lowest levels, Wanapum Dam is capable of generating electricity at between 50% to 60% of capacity.

The financial impact of the fracture was manageable for the District. An extraordinary loss of $21.3 million was recognized in 2014, of which $18 million was associated with repairs and additional operating costs associated with the fracture. During 2015, the remaining repairs were completed at an additional cost of $7.1 million and insurance proceeds of $2.7 million were received resulting in the extraordinary loss of $4.4 million. During 2016, the District received $10.5 million of insurance proceeds and incurred final clean-up expenses of $0.6 million resulting in the $9.9 million extraordinary gain for the year. The District concluded that expenses incurred related to restoration of the fracture were not a part of the normal life cycle of the dam and therefore met the definition of an extraordinary item as the event was both unusual and infrequent in nature. In order to correct the original design error in the structure incremental capital costs were incurred to properly anchor the dam into the bedrock with additional steel and concrete reinforcements. The total capital expenditures for these structural improvements were $62.4 million. The District does not anticipate any further costs or recoveries related to the fracture.

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 ten 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 turbine is 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 is also replacing and upgrading the generators at the Wanapum Development. In 2009, a contract was awarded to Alstom Hydro US, Inc. for $150 million to upgrade all ten generators at Wanapum Development. Eight generators have been completed with the most recent generator going into service in August 2017. The hydraulic governors are also being upgraded to digital models in conjunction with the generator upgrades. The on-site construction is scheduled through August, 2020. The existing generators are currently rated at 109.25 megavolt-amperes ("MVA"). The new generators will have a nameplate rating of 128.6 MVA, an increase of 17.7%. The cost of replacing the remaining generators for the construction period of 2017-2020 is estimated at $43.7 million.

In addition to the Wanapum turbine and generator replacement project, the District is implementing turbine life extension/replacement and generator rewinds for the Priest Rapids Development. The contract to supply turbines was awarded to Voith Hydro in June 2014. The District awarded the contract for governor equipment to L&S Electric in late 2014 and the generator rehabilitation contract was awarded to Alstom Power, Inc in June 2015 with manufacturing to begin in late 2015. On-site work at the Priest Rapids Development began in August, 2016 and is scheduled to be completed in 2026. The cost of the turbine replacement, generator rehabilitation and governor upgrade is estimated at $408.8 million, including labor. In the 1990's, 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 plants have been approved for upgrades 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. Over the next five years, the plant's 600 volt and 13.2 kilovolt switchgear is scheduled for assessment of refurbishment or replacement at both Developments. All major plant cranes have been rebuilt, and 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.

The Wanapum spillway gates are scheduled for new paint and trunnion bearing replacements. Replacing the paint on the Wanapum spillway gates is a major undertaking because of their size. The gates are 50 feet wide by 68 feet tall and the original paint contains lead. The Wanapum spillway gate painting began in 2015 and is expected to be completed in 2020. Four out of the twelve gates have been completed to date. In addition to the painting, the District is continuing to determine if modifications to the spillway gates are necessary to address the recently updated seismic and structural requirements.

Priest Rapids Project Seismicity Study

The District is 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. Currently, the District is continuing to apply the results of these analyses to several project features (embankments, gates, concrete structures, etc.) to determine if they meet currently accepted seismic criteria. At the current time, the only anticipated modification is to the far right (west) embankment section at Priest Rapids Dam. Current estimates for this seismic related modification are in the range of $30-40 million (up from earlier estimates of $25 - $30 million). This project will be included in the 2018-2019 budget. Additionally, there is a possibility that a section of the left (east) embankment at Wanapum Dam may need seismic remediation at an estimated cost of $100 million. A detailed engineering analysis is under way to determine the seismic fragility of the embankment and its anticipated performance during and following an earthquake. There is a low probability that this level of remediation would be needed and, therefore, this project is not currently in the budget. In the next two years, the District will also be reviewing the seismic performance of other water retaining structures (concrete, earth embankments, spillway gates) at both Developments. At this time, it is believed that no significant modifications will be required for these structures. It is anticipated that any other seismic remediation work will be minor (anchoring equipment and other small enhancements) and will be budgeted when the scope is determined. The FERC has requested and the District has contracted with a three-person Board of Consultants to review seismic stability of the embankments at both dams. This effort is currently under way with a focus on the right embankment at Priest Rapids Dam and the left embankment at Wanapum Dam. The seismic evaluation of the remaining project water retaining structures is anticipated to be completed by mid-2019.

Estimated Capital and Financing Requirements

The District projects that the total cost of the capital program at the Priest Rapids Project during the period 2017 through 2022 will be approximately $492 million, as shown in the table below, of which a portion is expected to be financed by proceeds of prior, current, and future Parity Bonds with the remainder financed through equity from the Electric System (through junior lien bonds purchased by the Electric System). The District's capital program at the Priest Rapids Project is expected to begin to decline in 2018 as the bulk of significant projects, such as Wanapum generators and License requirements, are forecasted to be largely completed in 2017. 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 16
PRIEST RAPIDS PROJECT
2017-2022 FORECAST CAPITAL PROGRAM EXPENDITURES

Turbine/Generator	$ 270,000,000
License	39,000,000
Powerhouse/Spillway	147,000,000
General(1)	36,000,000
	$ 492,000,000

(1) Includes buildings and property improvements, computer hardware and software, tools, equipment, security and communication/control systems improvements.

Operating Results

The following table shows actual operating results for the Priest Rapids Project for the fiscal years 2012 through 2016. 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 Resolution and the Power Sales Contract (which went into effect on November 1, 2005, for the Priest Rapids Development and November 1, 2009, for the Wanapum Development). 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.

Table 17
PRIEST RAPIDS PROJECT OPERATING RESULTS
($000)

	2012	2013	2014	2015	2016
Operating Revenues					
Sales of Power(1)	$135,338	$142,168	$ 167,588	$ 156,587	$ 148,397
Interest and Other Income(2)	8,677	8,317	8,619	8,983	11,868
Total Revenues and Other Income	$144,015	$150,485	$ 176,207	$ 165,570	$ 160,265
Operating Expenses					
Generation	$ 23,462	$ 22,919	$ 25,126	$ 26,603	$ 28,419
Transmission	1,516	1,653	2,184	2,767	2,397
Administrative and General	15,396	18,617	17,521	22,934	21,341
License Compliance and Related				22,870	20,180
Agreements	19,597	24,199	26,115		
Taxes	1,827	1,955	1,587	1,902	1,943
Total Operating Expenses	$ 61,798	$ 69,343	$ 72,533	$ 77,076	$ 74,280
Net Revenues Before Extraordinary Item	$ 82,217	$ 81,142	$ 103,674	$ 88,494	$ 85,985
Extraordinary Loss – Fracture(3)	--	--	(17,947)	(4,359)	9,896
Net Revenues after Extraordinary Item	82,217	81,142	85,727	84,135	95,881
Unused bond proceeds refunded	--	--	--	--	--
Excess Available in Supplemental R&R Fund	$ 11,968	$ 12,283	$ 12,619	$ 12,935	$ 13,951
Remaining Net Revenues Available for Debt Service on Parity Bonds	$ 94,185	$ 93,425	$ 98,346	$ 97,070	$ 109,832
Debt Service on Parity Bonds	$ 80,380	$ 81,245	$ 85,561	$ 84,412	$ 95,481
Debt Service Coverage on Parity Bonds(4)	1.17x	1.15x	1.15x	1.15x	1.15x
Net Energy Output (MWh)(5)	8,747,538	8,945,411	7,755,280	8,677,766	9,193,106
Average Cost ($/MWh)(6)	$15.47	$15.89	$21.61	$18.04	$16.14

(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) See "Wanapum Spillway Monolith Fracture."
(4) Annual charges for sales of power are set at levels sufficient to produce revenues to meet the debt service coverage requirement, which is 1.15x.
(5) Run-off was 120% of average in 2012, 103% of average in 2013 in 2014, 96% of average in 2015 and 98% of average in 2016.
(6) Revenues from sales of power divided by net energy output. For 2013, the average cost will not match the overstated number of $16.31 reported in the Management Discussion and Analysis section of the 2014 audited financial statements issued on April 24, 2015, due to a calculation oversight. The fracture of the Wanapum Dam increased operating costs for 2014.

Certain columns may not add due to rounding.

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 and energy are 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 $19 per MWh under average water conditions.

See "Wanapum Spillway Monolith Fracture" for a discussion of the impact of the fracture in the Wanapum Dam spillway monolith on 2014 operations.

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Debt Service Requirements for the Priest Rapids Project

The following table gives debt service requirements for the outstanding parity bonds and the outstanding junior lien bonds for the Priest Rapids Project. 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. As of October 1, 2017, the reduction is 6.6%.

Table 18
PRIEST RAPIDS PROJECT PARITY BOND DEBT SERVICE REQUIREMENTS[(1)]

	Outstanding Parity Bonds			Aggregate Debt	Junior Lien
Year[(2)]	Priest Rapids	Wanapum	Priest Rapids Project[(3)]	Service on Parity Bonds	Priest Rapids Project Bonds[(4)]
2018	$ 7,591,717	$ 8,980,841	$ 66,761,842	$ 83,334,399	$ 7,756,957
2019	7,179,957	7,899,199	64,460,989	79,540,145	8,084,499
2020	7,176,697	7,895,121	64,391,922	79,463,741	8,077,725
2021	7,174,639	7,891,040	64,292,532	79,358,211	8,071,249
2022	5,344,404	5,965,531	62,162,234	73,472,168	8,075,146
2023	5,339,181	5,961,063	62,094,304	73,394,548	8,064,352
2024	4,488,313	5,960,999	56,612,668	67,061,979	8,063,175
2025	4,482,609	5,955,071	56,501,660	66,939,340	8,057,935
2026	4,478,683	5,953,014	56,420,500	66,852,197	8,064,220
2027	4,480,818	5,949,428	143,802,686[(5)]	154,232,932	8,055,471
2028	4,474,282	5,948,913	56,255,672	66,678,866	8,051,652
2029	4,468,806	5,941,202	56,035,358	66,445,366	8,047,563
2030	4,463,854	5,940,896	55,598,422	66,003,172	8,040,920
2031	4,458,880	5,937,462	54,566,988	64,963,330	8,026,437
2032	3,344,692	5,930,633	92,336,292[(6)]	101,611,617	8,035,487
2033	3,337,537	5,925,009	48,768,665	58,031,211	8,027,628
2034	2,437,611	5,920,058	47,382,005	55,739,674	8,027,709
2035	2,430,884	5,915,247	47,139,647	55,485,778	8,019,077
2036	2,428,027	5,910,042	45,426,909	53,764,978	8,021,223
2037	--	5,903,910	43,760,383	49,664,293	8,010,106
2038	--	5,899,213	43,481,016	49,380,229	8,005,395
2039	--	5,890,177	40,015,609	45,905,786	7,781,301
2040	--	5,882,998	127,659,234[(7)]	133,542,232	7,777,713
2041	--	5,876,863	18,949,262	24,826,125	13,897,288
2042	--	5,870,958	18,925,100	24,796,058	13,867,114
2043	--	5,859,606	18,911,383	24,770,989	13,865,470
2044	--	--	5,599,800	5,599,800	13,850,681
2045	--	--	--	--	11,399,624
2046	--	--	--	--	3,583,607
2047	--	--	--	--	3,570,817
Total	$89,581,591	$162,964,488	$1,518,313,081	$1,770,859,158	$ 258,277,542

(1) Columns may not add due to rounding.
(2) Based on a calendar year, including January 1 and July 1 payments made in that year.
(3) Before federal credit payments.
(4) Includes principal and interest.
(5) 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 sinking fund installments into a subaccount in the Principal and Bond Retirement Account no later than January 1, 2011 through 2027 sufficient to pay such bonds on January 1, 2027.
(6) 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.
(7) 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 the $90,000,000 of such 2015M Bonds maturing on January 1, 2040.

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 2015 population of 22,080, and Ephrata, the County seat, is the second largest with a 2015 population of 7,985. Population density in the County in 2015 was 35.05 persons per square mile ranking it 20th of the 39 counties in the State. The total civilian labor force in the County in 2017 was 45,102.

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 19
GRANT COUNTY
SELECTED ECONOMIC INDICATORS

	Population(1)	Per Capita Personal Income(2)	Taxable Retail Sales ($000)(3)	Value of Building Permits ($000)(4)	Personal Income ($000)(2)
2017	95,630	--	--	--	--
2016	94,610	--	$ 1,773,257	$ 66,113	--
2015	93,930	$38,081	1,766,672	64,317	$ 3,551,382
2014	92,900	35,123	1,819,118	72,095	3,260,748
2013	91,800	34,842	1,818,642	66,390	3,202,225
2012	91,000	34,060	1,588,877	65,128	3,119,524
2011	90,100	32,611	1,491,166	51,426	2,959,625
2010	89,120	30,631	1,215,317	72,488	2,745,407
2009	86,100	29,759	1,220,992	41,432	2,599,155
2008	84,600	29,809	1,551,868	76,211	2,532,098

(1) *Source*: Washington State Office of Financial Management; information for 2010 is from the United States Bureau of the Census.
(2) *Source*: Washington State Bureau of Economic Analysis; 2015 is most recent data available. The 2015 per capita personal income for the State was $51,898, and the total personal income was $372,125,338,000.
(3) *Source*: Washington State Department of Revenue.
(4) *Source*: Grant County Building Department.

Table 20
GRANT COUNTY MAJOR PROPERTY TAXPAYERS[1]

Taxpayer	Business	Assessed Valuation	% of County Assessed Valuation[2]
Microsoft Corporation	Data Center/Technology	$ 816,892,430	7.82%
Yahoo, Inc.	Data Center/Technology	222,021,340	2.13
REC Solar Grade Silicon, LLC	Chemical Manufacturing	188,327,710	1.80
Quincy Data Center LLC	Data Center/Technology	129,762,365	1.24
Boeing Co.	Aerospace	118,505,950	1.13
Yahoo Holdings Inc.	Data Center/Technology	102,764,480	0.98
US Services LLC	Transportation Services	97,373,180	0.93
Vantage Data Centers LLC	Data Center/Technology	86,000,000	0.82
Intergate Quincy LLC	Data Center/Technology	64,996,730	0.62
SGL Automotive Carbon Fibers LLC	Carbon Manufacturing	61,895,210	0.59
Intuit Inc.	Data Center/Technology	60,237,635	0.58
Pacific Coast Canola LLC	Canola Oil Manufacturing	51,750,605	0.50
J. R. Simplot Co.	Potato Products	51,593,035	0.49
BNSF Railway Company Tax Dept.	Railroads	50,038,176	0.48
Access Business Group LLP	Personal Care Manufacturer	49,242,950	0.47
Chemi-Con Materials Corp.	Chemical Manufacturing	42,493,720	0.41
REC Solar Grade Silicon, LLC	Chemical Manufacturing	40,663,570	0.39
Moses Lake Industries Inc.	Chemical Manufacturing	40,000,000	0.38
Lineage Columbia, LLC	Warehousing/Logistics	39,825,860	0.38
Conagra Foods Lamb-Weston Inc.	Potato Products	36,164,025	0.35
Lamb-Weston BSW, LLC	Potato Products	35,500,000	0.34
Xyleco Realty WA, LLC	Real Estate	34,267,240	0.33
Inflation Systems Inc.	Air Bag Products	32,000,010	0.31
Terex Washington Inc.	Lifting and Material Manufacturer	27,391,805	0.26
Akzo Nobel Pulp and Performance Chemicals, Inc.	Pulp and Performance Chemicals	25,896,545	0.25
		$ 2,505,604,571	23.99%

(1) Total County assessed valuation for 2017 taxes is $10,444,138,245.
(2) May not add due to rounding.
Source: Grant County Assessor for tax collection year 2017.

Table 21
GRANT COUNTY MAJOR EMPLOYERS

Employer	Product/Service	Employees
Genie Industries, Inc.	Aerial Work Platforms	1,400
Moses Lake School District	Education	951
Grant County Government	Government	633
Wal-Mart	General Retail & Grocery Retail	615
The District(1)	Electric Utility	608
Lamb Weston/BSW	Frozen Potato Processing	500
Samaritan Healthcare	Health Care	473
ConAgra Foods, Inc.	Frozen Potato Processing	460
REC Silicon	Polysilicon Manufacturing	450
J.R. Simplot Co.	Frozen French Fries & Dehydrated Potato Products	375
Quincy Foods, LLC	Frozen Vegetable Processing	370
Quincy School District	Education	369
Takata Corporation	Automotive Air Bags	353
Ephrata School District	Education	315
National Frozen Foods	Corn & Pea Processing	275
Confluence Health Moses Lake Clinic	Health Care	260
Moses Lake Industries, Inc.	Corporate Headquarters & Industrial Chemical	240
Moses Lake Community Health	Health Care	234
Washington Potato Co.	Dehydrated Potato Flake Processing	190
D&L Foundry, Inc.	Manhole Cover Manufacturing	184
Big Bend Community College	Education	180
Columbia Basin Hospital	Health Care	170
Columbia Colstor	Cold Storage	160
SGL Automotive Carbon Fiber	Carbon Fiber	126
Eldorado Stone	Stone and Brick Processing	100
International Paper	Corrugated Box Manufacturing	100

(1) 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 as of June 2014, and the District.

Table 22
GRANT COUNTY RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT(1)

	Annual Averages					
	2012	2013	2014	2015	2016	2017(1)
Total Labor Force	43,914	43,932	44,772	44,681	44,807	45,102
Employment	39,740	40,110	41,446	41,409	41,486	42,122
Unemployment	4,174	3,822	3,326	3,272	3,321	2,980
Unemployment Rate	9.5%	8.7%	7.4%	7.3%	7.4%	6.6%

(1) Not seasonally adjusted.
(2) Average through August 2017.
Source: Washington State Employment Security Department, Labor Market and Economic Analysis Branch.

Table 23
GRANT COUNTY NONAGRICULTURAL EMPLOYMENT[(1)]

	Annual Averages					
NAICS Industry Title	2012	2013	2014	2015	2016	2017[(2)]
Total Nonfarm	27,340	27,570	28,650	28,940	29,180	29,240
Total Private	19,490	19,460	20,380	20,750	20,870	20,710
Goods Producing	5,750	5,730	6,220	6,280	6,090	6,090
Mining, Logging & Construction	1,210	1,150	1,230	1,200	1,230	1,300
Manufacturing	4,540	4,590	4,990	5,090	4,860	4,790
Services Providing	21,590	21,840	22,430	22,660	23,090	23,150
Trade, Transport. & Utilities	5,640	5,630	5,750	5,960	6,190	5,910
Information & Financial Activities	1,070	1,070	1,060	1,090	1,120	1,100
Professional & Business Services	1,250	1,310	1,560	1,740	1,690	1,740
Education & Health Services	2,870	2,770	2,820	2,730	2,760	2,740
Leisure & Hospitality	2,310	2,360	2,400	2,380	2,460	2,560
Government	7,850	8,110	8,270	8,190	8,310	8,520

(1) Not seasonally adjusted.
(2) Average through July 2014.
Source: Washington State Employment Security Department, Labor Market and Economic Analysis Branch.

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 require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. Neither power may be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon certification of a petition signed by at least 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.

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 by Foster Pepper PLLC, Seattle, Washington as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, insolvency and other laws relating to or affecting creditors' rights. The various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C.

A municipality such as the District must be specifically authorized under state law in order to seek relief under Chapter 9 of the U.S. Bankruptcy Code (the "Bankruptcy Code"). Chapter 39.64 RCW, entitled the "Taxing Relief Bankruptcy Act," permits any "taxing district" (defined to include public utility districts) to voluntarily petition for relief under the predecessor statute to the Bankruptcy Code. A creditor cannot bring an involuntary bankruptcy proceeding against a municipality, including the District. The federal bankruptcy courts have certain discretionary powers under a plan for adjustment of debt under the Bankruptcy Code.

TAX MATTERS

Exclusion From Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the Issuance Date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The District is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The District has covenanted in the Bond Resolution to comply with those requirements, but if the District fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. Bond Counsel has not undertaken and does not undertake to monitor the District's compliance with such requirements.

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of $40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds $150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed $5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed $7,500,000.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

Bonds Not "Qualified Tax Exempt Obligations" for Financial Institutions. Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than $10,000,000 of tax exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax exempt obligations," only 20% of any interest expense deduction allocable to those obligations will be disallowed. The District has not designated the Bonds as "qualified tax exempt obligations."

The District is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than $10,000,000 of tax exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has **not** designated the Bonds as "qualified tax exempt obligations" for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Original Issue Premium. The Bonds have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

Potential Future Federal Tax Law Changes. From time to time, there are legislative proposals in Congress which, if enacted into law, could adversely affect the tax treatment, market value or marketability of the Bonds. It cannot be predicted whether future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Bonds.

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 Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of the opinion of Bond Counsel with respect to the Bonds is attached as Appendix C. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no 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. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds. Bond Counsel periodically serves as underwriter's counsel to the Underwriter on non-District issues.

Certain legal matters will be passed upon for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington. Any opinion of Stradling Yocca Carlson & Rauth, P.C., will be rendered solely to the Underwriter, will be limited in scope, and cannot be relied upon by investors.

CONTINUING DISCLOSURE

Basic Undertaking to Provide Annual Financial Information and Notice of Material Events

To meet the requirements of paragraph (b)(5) of United States Securities and Exchange Commission ("SEC") Rule 15c2-12 ("Rule 15c2-12"), as applicable to a participating underwriter for the Bonds, the District made the following written Undertaking for the benefit of holders of the Bonds. The District agrees to provide or cause to be provided, either directly or through a designated agent, to the Municipal Securities Rulemaking Board ("MSRB"), in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB the following historical annual financial information and operating data for the prior Fiscal Year.

(1) Annual financial information and operating data of the type include in this Official Statement as generally described below ("annual financial information"); and

(2) Timely notice (not in excess of 10 business days after the occurrence of the event) of the occurrence of any of the following events with respect to the Bonds:

- 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, Notice of Proposed Issue (IRS Form 5701—TEB) or other material notices or determinations with respect to the tax status of the Bonds;
- modifications to rights of holders of the Bonds, if material;
- Bond calls (other than scheduled mandatory redemptions of Term Bonds), 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 or Obligated Person, as such "Bankruptcy Events" are defined in Rule 15c2-12;

- 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; and

- appointment of a successor or additional trustee or the change of name of a trustee, if material.

The District also will provide to the MSRB timely notice of a failure by the District to provide required annual financial information on or before the date specified below.

Type of Annual Financial Information Undertaken to be Provided

The annual financial information that the District undertakes to provide will consist of (1) 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; (2) 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; (3) Electric System retail customers, energy sales, peak loads and revenues; (4) Electric System operating results and debt service coverage on the outstanding Parity Bonds; (5) Electric System energy requirements, resources and power costs; (6) the aggregate amount and percentage of total energy sold and of retail revenues provided by the Electric System's ten largest customers; and (7) 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; and will be provided to the MSRB not later than the last day of the ninth month after the end of each fiscal year of the District (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the District's fiscal year ending December 31, 2017.

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.

Amendment of Undertaking

The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by the Rule.

The District will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking

The District's obligations under the Undertaking shall terminate upon the legal defeasance of all of the Bonds. In addition, the District's obligations under the Undertaking shall terminate if those provisions of the Rule which require the District to comply with the Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the District, and the District provides timely notice of such termination to the MSRB.

Remedy for Failure to Comply with Undertaking

If the District or any other obligated person fails to comply with the Undertaking, the District will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the District learns of that failure.

No failure by the District or other obligated person to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder or Beneficial Owner of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the District or other obligated person to comply with the Undertaking.

Prior Compliance with Continuing Disclosure Undertakings

The District has previously entered into continuing disclosure undertakings under Rule 15c2-12. The District is in compliance with its prior written undertakings for the previous five years in all material respects. The District filed its 2013 annual financial statements and certain operating information on September 24, 2014 (in a timely manner); however, after filing such information, it was discovered that some operating tables were not included. On October 6, 2014, the District amended the filing to include all relevant information. In addition, the District filed a notice with respect to a rating upgrade from S&P Global Ratings from August 8, 2013 for the Electric System, Priest Rapids Project, Priest Rapids Development and Wanapum Development bonds, which was linked to the Electric System, Priest Rapids Project and Priest Rapids Development bonds, but was not linked to the Wanapum Development bond CUSIP numbers. The rating upgrade was linked to the Wanapum Development bond CUSIP numbers in November 2017.

RATINGS

Fitch, Moody's and S&P have assigned their ratings of "AA," "Aa3," and "AA," respectively, to the Bonds. Such ratings reflect only the views of the respective rating agency and are not a recommendation to buy, sell or hold 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 they will not be revised or withdrawn entirely by such rating agencies if, in the judgment of the rating agencies, circumstances so warrant. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at an underwriter's discount of $104,832. The Underwriter's obligations are subject to certain conditions precedent, and it will be obligated to purchase all Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers at prices 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 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 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

Public Financial Management, Inc. has acted 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. Public Financial Management, Inc. 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 and the Power Sales Contracts 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.

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following summary is a brief outline of certain provisions of the Bond Resolution, is not to be considered a full statement thereof and is qualified by reference to the complete Bond Resolution. Capitalized words or phrases that are not defined in this summary or conventionally capitalized have the meanings given such words or phrases in the Bond Resolution.

Certain Definitions

Certain definitions are in "DESCRIPTION OF THE BONDS" in the front portion of this Official Statement.

"*Alternate Credit Facility*" means a letter of credit, insurance policy, line of credit, surety bond or other security issued as a replacement or substitute for any Credit Facility then in effect.

"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 bonds, (b) the principal of all outstanding Serial Bonds due in such Fiscal Year, (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 a resolution 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.

"Bond Fund" means the Electric System Revenue Bond Fund, which shall be used solely for the purpose of paying debt service on the Bonds and any Future Parity Bonds.

"Bondowners Trustee" means a trustee appointed pursuant to the Bond Resolution.

"*Business Day*" means any day other than a Saturday or Sunday that is (A) neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in the City of New York, New York or Ephrata, Washington, and (B) a London Business Day.

"*Conversion*" means a conversion of the Bonds or a portion of the Bonds from one Interest Rate Period to another Interest Rate Period (including the establishment of a new Term Interest Rate).

"*Credit Facility*" means any letter of credit**,** insurance policy, line of credit, surety bond or other security, if any, to be issued by the Credit Provider in connection with the Conversion of the Bonds to a Weekly Interest Rate, a Daily Interest Rate, or other interest rate mode, that secures the payment when due of the principal and Purchase Price of and interest on the Bonds, including any Alternate Credit Facility, or any extensions, amendments or replacements thereof pursuant to its terms.

"*Daily Interest Rate*" means a variable interest rate for the Bonds established in accordance with the Bond Resolution.

"*Daily Interest Rate Period*" means each period during which a Daily Interest Rate is in effect.

"*Delayed Remarketing Period*" means the period during which some or all of the Bonds bearing interest at an Index Floating Rate or all of the Bonds bearing interest at a Term Interest Rate are not remarketed as set forth in Section 3.2(J).

"*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 a 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 Revenues on an equal and ratable basis with the outstanding Parity Bonds;

(c) under which Reciprocal Payments are to be made directly into the Bond Fund;

(d) for which the District Payments are either specified to be one or more fixed amounts or are determined as provided by the Derivative Product; and

(e) for which the Reciprocal Payments are either specified to be one or more fixed amounts or are determined as set forth in the Derivative Product.

"District Payment" means any payment (designated as such by resolution) required to be made by or on behalf of the District under a Derivative Product and which is determined according to a formula set forth in the Derivative Product.

"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 heretofore 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 in Section 5.3 (relating to defeasance) of the Bond Resolution or such indebtedness shall be refunded with bonds issued in accordance with the Bond Resolution.

"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, the 2013 Bonds and the 2011 Bonds.

"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 heretofore or hereafter 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, and 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).

"*Initial Term Interest Rate*" means the initial fixed rate of interest for the Bonds.

"*Initial Term Rate Period*" means the period commencing on the Issuance Date and ending on the first Purchase Date or at the end of a Delayed Remarketing Period, if applicable.

"*Interest Accrual Date*" with respect to the Bonds means: (a) for any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period; (b) for any Daily Interest Rate Period, the first day thereof and, thereafter, the first day of each calendar month during such Daily Interest Rate Period; (c) for any Term Interest Rate Period, the first day thereof and, thereafter, each January 1 and July 1 during that Term Interest Rate Period; and (d) for each Index Floating Rate Period, the first day thereof and, thereafter, the first Business Day of each calendar month during such Index Floating Rate Period.

"*Junior Lien Bonds*" means the 2016 Bond and the 2017-M Bond.

"*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.

"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, any allowance for depreciation and District Payments.

"*Par Call Date*" means: (a) during the Initial Term Rate Period and subsequent Term Rate Periods, the first Business Day on which the Bonds are subject to call for optional redemption at a price of 100% of the principal amount thereof plus interest accrued to the date fixed for redemption, if and as set forth in the Pricing Certificate; (b) during any Index Floating Rate Period that is two years or longer in duration, the first Business Day that is on or after the date that is six months prior to the end of such Index Floating Rate Period or the date established by a Designated Representative with a Favorable Opinion of Bond Counsel; and (c) during any other Index Floating Rate Period, the first Business Day after the end of such Index Floating Rate Period.

"Parity Bonds" means the outstanding 2011 Bonds, the 2013 Bonds, the Bonds and all Future Parity Bonds.

"Parity Lien Obligations" means all charges and obligations against Gross Revenues 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" means any investments or investment agreements permitted under the laws of the State of Washington as amended from time to time.

"*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.

"*Purchase Price*" means the purchase price to be paid to the registered owners of Bonds purchased, which shall be equal to the principal amount thereof tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Accrual Date to the Purchase Date (if the Purchase Date is not an Interest Payment Date); provided, however, that in the case of a proposed Conversion from a Term Interest Rate Period on a date on which the Bonds being converted would otherwise be subject to optional redemption if such Conversion did not occur, the Purchase Price shall also include the optional redemption premium, if any, provided for such date.

"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.

"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.

"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.

"Reciprocal Payment" means any payment (designated as such by a 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.

"Refunded Municipals" means pre-refunded municipal obligations meeting the following conditions: (i) (a) the obligations are not callable prior to maturity, (b) the obligations are callable prior to maturity and the issuer has foregone the right to call the obligations and the obligations are irrevocably escrowed to maturity, or (c) the escrow agent or trustee has been given irrevocable instructions concerning calling and redemption; (ii) the obligations are irrevocably secured by cash or non-callable Government Obligations which may be applied only to interest, principal, and premium payments of such bonds; (iii) the principal and interest of the Government Obligations (plus any cash in the fund) are sufficient to meet the liabilities of the obligations; (iv) the Government Obligations serving as security for the obligations are held by an escrow agent or a trustee; and (v) the Governmental Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent.

"*Reserve Fund Requirement*" means initially with respect to the Bonds and any Future Parity Bonds secured by the 2017 Reserve Fund an amount equal to zero. If the Bonds are converted to a new Term Interest Rate Period or another Interest Rate Period, a Designated Representative may set the Reserve Fund Requirement at an amount not to exceed an amount equal to the least of (A) 125% of average Annual Debt Service, (B) maximum Annual Debt Service or (C) 10% of the initial principal amount of the Bonds or any Future Parity Bonds secured by the 2017 Reserve Fund.

"Resource Obligation" means an obligation of the District to pay the following costs associated with a resource from Gross Revenues 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 Revenues 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.

"Serial Bonds" means 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.

"*Stepped Interest Rate*" means, for the period beginning on the applicable Mandatory Tender Date, a per annum interest rate or rates set forth in the Pricing Certificate.

"Term Bonds" means Parity Bonds of any principal maturity for which mandatory sinking fund payments are required.

"*Term Interest Rate*" means a term, non-variable interest rate established in accordance with the Bond Resolution.

"*Term Interest Rate Period*" means each period during which a Term Interest Rate is in effect.

"*2011 Bonds*" means the Electric System Revenue and Refunding Bonds, Series 2011-I authorized by Resolution No. 8572 of the District.

"*2011 Reserve Fund*" means the debt service reserve account, which secures the payment of the principal of and interest on the 2011 Bonds and may, at the District's option, secure the payment of the principal of and interest on one or more series of Future Parity Bonds.

"*2013 Bonds*" means the Electric System Revenue Refunding Bonds, Series 2013-J authorized by Resolution No. 8682 of the District.

"*2013 Reserve Fund*" means the debt service reserve account, which secures the payment of the principal of and interest on the 2013 Bonds and may, at the District's option, secure the payment of the principal of and interest on one or more series of Future Parity Bonds.

"2014 Bonds" means the Electric System Revenue Bonds, Series 2014-K (SIFMA Index) of the District.

"*2016 Bond*" means the Electric System Revenue Bond, Series 2016-L authorized by Resolution No. 8818.

"*2017-M Bond*" means the Electric System Revenue Bond, Series 2017-M authorized by Resolution No. 8855.

"*2017 Reserve Fund*" means the debt service reserve account, which secures the payment of the principal of and interest on the 2017 Bonds and may, at the District's option, secure the payment of the principal of and interest on one or more series of Future Parity Bonds.

"*Variable Rate Bonds*" means, for any period of time, Parity Bonds, including the Bonds, that during such period bear interest at 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.

"*Weekly Interest Rate*" means a variable interest rate for the Bonds established in accordance with the Bond Resolution.

"*Weekly Interest Rate Period*" means each period during which a Weekly Interest Rate is in effect for the Bonds.

Revenue Fund

The District will pay into the Revenue Fund all Gross Revenue of the Electric System, exclusive of earnings on money on hand in any arbitrage rebate account, in the R&C Fund, the 2011 Reserve Fund, the 2013 Reserve Fund, the 2017 Reserve Fund or any other debt service reserve account securing Parity Bonds, which may be retained in such funds and account or transferred to other funds as required by the Bond Resolution.

Rate Stabilization Account

In accordance with the priorities set forth in "SECURITY FOR THE PARITY BONDS—Flow of Funds Under the Bond Resolution," 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, 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.

Bond Fund

The District obligates and binds itself irrevocably to set aside and pay into the Bond Fund out of the Gross Revenue of the Electric System certain fixed amounts in the following order of priority:

(1) Bond Fund: On or before the day on which an installment of interest falls due an amount, together with funds available in such account, equal to the installment of interest next falling due on all outstanding Parity Bonds; in the case of Variable Rate Bonds transfers shall be made as specified in the resolution authorizing such bonds.

On or before the day on which an installment of principal falls due, the amount which, together with funds available in such account, shall equal the installment of principal next falling due on all outstanding Parity Bonds; and

On or before the due date of each Sinking Fund Requirement, an amount which, together with funds available in such account, will equal the Sinking Fund Requirement next falling due;

(2) 2017 Reserve Fund: Initially the Reserve Fund Requirement for the Bonds is zero. The following applies if the Reserve Fund Requirement is set above zero in the future. On or before the 25th day of each of the six months next succeeding each date of valuation of the amount in the 2017 Reserve Fund, 1/6th of the amount necessary to make the valuation of the amount in the 2017 Reserve Fund equal to 100% of the Reserve Fund Requirement, if the valuation of the amount in the 2017 Reserve Fund is less than 100% of the Reserve Fund Requirement. The valuation of the amount in the 2017 Reserve Fund must be made by the District 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 2017 Reserve Fund is greater than 100% of the Reserve Fund Requirement, then and only then may the District withdraw at any time prior to the next date of valuation from the 2017 Reserve Fund (i) the interest earned on the amounts credited to the 2017 Reserve Fund and (ii) the difference, if any, between the amount of the valuation and the Reserve Fund Requirement. The District has reserved the right to substitute Qualified Insurance or a Qualified Letter of Credit (as defined in the Bond Resolution) to satisfy the Reserve Fund Requirement for any Parity Bonds, provided that the letter of credit or insurance is not cancelable on less than five years' notice.

Money in the Bond Fund and 2017 Reserve Fund may, at the option of the District, be invested or reinvested 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 the 2017 Reserve Fund, obligations in which money in the 2017 Reserve Fund have been invested are to be valued at the market value thereof plus accrued interest to the date of redemption for obligations maturing more than six months from the valuation date and at the par value thereof for obligations maturing within six months of the valuation date.

The District shall make up any deficiency in the Bond Fund from the funds available in the 2017 Reserve Fund. The District will replenish such withdrawals from the 2017 Reserve Fund from moneys in the Revenue Fund first available after making current specified payments into the Bond Fund, and after paying and making necessary provision for the payment of Operating Expenses.

The Reserve Fund Requirement for the Bonds and any Future Parity Bond secured by the 2017 Reserve Fund is an amount equal to zero.

Additional Bonds

The District will not issue any bonds or other obligations subsequent to the issuance of the Bonds having a lien or charge on the Gross Revenue of the System prior to the lien and charge of the Bonds. Future Parity Bonds may be issued provided that the District shall comply with the following conditions:

(1) At the time 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) The Net Revenue of the Electric System for any 12 consecutive months out of the 24 months next preceding the issuance of such 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 purposes of this paragraph, 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 calculation. If such index is no longer published, another nationally recognized index for municipal revenue bonds maturing in 20 to 30 years may be used. If on the date of such calculation the interest rate on any Variable Rate Bonds shall then be fixed for a specified period, including pursuant to a Derivative Product, the interest rate used for such specified period for the purpose of the foregoing calculation shall be such actual interest rate.

“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; 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.

(3) At or prior to 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 the conditions set forth above, or in the alternative, the District may obtain a certificate from a Professional Utility Consultant stating that the projected average 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.

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 out maturities to the nearest $5,000) to be paid in any Fiscal Year thereafter than would have been required to be paid in the same Fiscal Year for debt service on the bonds being refunded, then paragraphs 2 and 3 above need not be complied with to permit such refunding Future Parity Bonds to be issued.

In the event that the District elects to meet the requirements with respect to the Reserve Fund as to any issue of Bonds 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 Fund to secure the Bonds.

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 regarding additional bonds, excluding Annual Debt Service on the Variable Rate Bonds.

Separate System Bonds; Resource Obligations

The District may enter into contracts to purchase energy, capacity, capability, reserves, conservation or services or authorize and issue 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 must be payable solely from the revenues or other income derived from the ownership or operation of such separate system. Costs associated with any such separate system may be declared by resolution of the Commission to be a Resource Obligation of the Electric System provided that the following requirements must be met at the time of such declaration:

(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 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 must have been filed with the Secretary of the Commission a report of the Professional Utility Consultant stating that estimated annual Net Revenues 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 Revenues, the Professional Utility Consultant shall base such 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 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 party to the contract has all requisite right, power and authority to execute and deliver the contract and to perform its obligations thereunder and that the contract constitutes a legally valid and binding obligation of each party thereto.

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

Derivative Products

To the extent permitted by state law the District may enter into Derivative Products on a parity with the Bonds or any Parity Bonds subject to the conditions set forth in the Bond Resolution and summarized below.

The following shall be conditions precedent to the use of any Derivative Product on a parity with any Bonds under the Bond Resolution:

(1) General Parity Tests. The Derivative Product and the obligations to which it relates must satisfy the requirements for Future Parity Bonds described in the Bond 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.

(2) Opinion of Bond Counsel. The District shall obtain an opinion of bond counsel on the due authorization and execution of such Derivative Product, the validity and enforceability thereof and opining that the action proposed to be taken is authorized or permitted by the Bond Resolution and will not adversely affect the excludability for federal income tax purposes of the interest on any outstanding Parity Bonds.

(3) Payments. Each Derivative Product shall set forth the manner in which the District Payments and Reciprocal Payments are to be calculated and a schedule of Derivative Payment Dates.

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

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

(b) set forth such other matters as the District deems necessary or desirable in connection with the management of Derivative Products as are not clearly inconsistent with the provisions of the Bond Resolution.

Defeasance

The District may set aside with a trustee or escrow agent in a special trust account irrevocably pledged to the payment of certain Bonds, cash and/or Government Obligations and/or Refunded Municipals in an amount, together with the earnings thereon, to provide funds to pay when due the interest on part or all of the Bonds and to redeem and retire such Bonds at or prior to maturity in accordance with their terms. In such event no further payments need to be made into the Bond Fund and such Bonds shall cease to be entitled to any lien, benefit or security of the Bond Resolution except the right to receive payment from such special account, and such Bonds shall not be deemed to be outstanding for any purpose of the Bond Resolution. Within 30 days following the defeasance of any of the Bonds, written notice will be mailed to S&P and Moody's at their main offices, to all registered owners of Bonds at their addresses appearing in the bond register and to the MSRB. No Bonds may be defeased (i) during a Weekly Interest Rate Period if the Bonds are then subject to optional tender for purchase pursuant to the Bond Resolution or (ii) during a Daily Interest Rate Period.

Rate Covenant

The District has covenanted to establish, maintain and collect rates or charges for electric energy 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 (1) 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 any and all amounts that the District may now or hereafter become obligated to pay from said Gross Revenue; and (2) Net Revenue in any Fiscal Year hereafter equal to at least 1.25 times the Annual Debt Service in such Fiscal Year on all outstanding Parity Bonds, excluding any capitalized interest thereon, in such Fiscal Year. Failure to comply with this covenant shall not constitute an Event of Default if the District, before the 90th day of the following Fiscal Year, employs a Professional Utility Consultant (acceptable to the Insurer) to recommend changes in the District's rates and imposes rates at least as high as those recommended by such consultant. For purposes of calculating the coverage requirement, there shall be added to the Net Revenue in any year any amount withdrawn from the R&C Fund 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 R&C Fund. See "Rate Stabilization Account" above.

Additional Covenants

Efficient Operation of the System. The District will maintain the Electric System and all additions, betterments and extensions thereto 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.

Sale/Lease of Property. 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 that:

(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 below, the District will not dispose of any part of the Electric System in excess of 5% of the value of the net utility plant of the District in service unless prior to such disposition:

(a) there has been filed with the Secretary of the Commission a certificate of a Professional Utility Consultant stating that such disposition will not impair the ability of the District to comply with the rate covenants set forth in the Bond Resolution; or

(b) provision is made for the payment, redemption or other retirement of a principal amount of Bonds and Future Parity Bonds equal to the greater of the following amounts:

(i) An amount which will be in the same proportion to the net principal amount of Bonds and Future Parity Bonds then outstanding (defined as the total principal amount of Bonds then outstanding less the amount of cash and investments in the Bond Fund) that the Gross Revenues attributable to the part of the Electric System sold or disposed of for the 12 preceding months bears to the total Gross Revenues for such period; or

(ii) An amount which will be in the same proportion of the net principal amount of Bonds then outstanding that the book value of the part of the Electric System sold or disposed of bears to the book value of the entire Electric System immediately prior to such sale or disposition.

The District may dispose of any portion of the Electric System that has become unserviceable, inadequate, obsolete, or unfit to be used or no longer necessary for the use in the operation of the Electric System.

Insurance. The District will keep the Electric System insured, and will carry such other insurance with responsible insurers against risks, accidents or casualties, at least to the extent that insurance is usually carried by municipal corporations operating like properties; provided, however, the District may institute or continue a self-insurance program with respect to any and all of the aforementioned risks.

Accounts, Records and Audits. The District shall keep proper books of account in accordance with generally accepted accounting principles as applied to governmental entities and with the rules of the Division of Municipal Corporations of the State Auditor's office of the State of Washington, or successors, or if no such rules are prescribed, 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 comparable to the District. The District shall cause its books to be audited annually by the State Auditor's office 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. Any Bondowner may obtain at the office of the District copies of the balance sheet and income and retained earnings statement 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 the Bond Resolution, and the amounts expended for maintenance, renewals, replacements, and gross capital additions to the Electric System.

Prohibition of Free Service. Except as required by law or in an amount not to exceed 1/10th of 1% of Annual Operating Expenses, the District will not furnish electric energy without charge. The District will promptly enforce the payment of delinquent accounts by discontinuing service to the extent then permitted by law, or by legal 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.

Other Covenants. The District shall not dissolve or terminate its existence, or consolidate with another entity, without paying or providing for the payment of all outstanding Parity Bonds. The District will use its best efforts to retain the FERC License for the Priest Rapids Project.

Continuing Disclosure Obligations. The District has agreed to provide ongoing disclosure in accordance with Section (b)(5) of SEC Rule 15c2-12. See "CONTINUING DISCLOSURE" for a discussion of this undertaking.

Amendments

Any amendments to the Bond Resolution may be made by the District with the consent of the owners of 66-2/3% in principal amount of the Parity Bonds then outstanding, provided that no such amendment shall extend the date of payment of principal of or any installment of interest on any Parity Bond or reduce the principal or redemption price thereof or the rate of interest thereon or advance the permissible redemption prior to maturity date of any Parity Bond or give any Parity Bond preference over any other Parity Bond, or reduce the percentage of Parity Bonds the owners of which are required to consent to an amendment of the Bond Resolution, or authorize the creation of any pledge prior to or on a parity with the Parity Bonds (except the issuance of Future Parity Bonds) without the consent of the owners of each such Parity Bond affected.

Without the consent of the owners of any Parity Bonds or Parity Lien Obligations, the District may adopt supplemental resolutions to add to the covenants of the District contained in, or to surrender any rights reserved to or conferred upon it by, the Bond Resolution, or to cure any ambiguity or correct any defect in the Bond Resolution which shall not adversely affect the interest of such owners in any material respect.

Events of Default; Remedies

Events of Default. Under the Bond Resolution the happening of the following shall constitute "Events of Default":

1. Default in the punctual payment of the principal of and premium, if any, on any of the Parity Bonds.

2. Default in the punctual payment of interest on any Parity Bond.

3. Failure to provide for required Sinking Fund Requirement when the same become due.

4. Default in the observance of any other of the covenants and conditions in the Bond Resolution and such default continues for 90 days after the District receives from the Bondowners' Trustee or from the owners of not less than 20% in principal amount of any Parity Bonds outstanding a written notice specifying and demanding the cure of such default.

5. If the District shall (except as permitted in the Bond Resolution) sell, transfer, assign or convey any properties constituting the Electric System or interests therein, or make any agreement for such sale or transfer).

6. If an order, judgment or decree is entered appointing a receiver, trustee or liquidator for the District or all or any substantial part of the Electric System; approving a petition filed against the District seeking the bankruptcy, arrangement or reorganization of the District, or assuming custody or control of the District or all or any substantial part of the Electric System and such order, judgment or decree shall not be vacated, set aside, stayed or terminated within 60 days from the date of the entry.

7. If the District admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy, makes an assignment for the benefit of its creditors, consents to the appointment of a receiver of all or any substantial part of the Electric System, or consents to the assumption by any court of custody or control of the District or of the whole or any substantial part of the Electric System.

Remedies/Bondowners' Trustee. So long as an Event of Default has not been remedied, a bondowners' trustee (the "Bondowners' Trustee") may be appointed by the owners of 25% in principal amount of Parity Bonds outstanding. The 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 Parity Bonds outstanding. 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 to the District and the owners of the outstanding Parity Bonds. 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.

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 Parity Bonds outstanding shall, take such steps and institute such suits 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 the Bond Resolution or in any of the Parity Bonds.

Any such suit or proceeding instituted by the Bondowners' Trustee shall be brought for the ratable benefit of all of the registered owners of the Parity Bonds, subject to the provisions of the Bond Resolution. The respective owners of Parity Bonds outstanding, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bondowners' Trustee the true and lawful trustee of the respective owners of those Parity Bonds, with authority to institute any such 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 Parity Bonds outstanding, any plan of reorganization or adjustment affecting those Parity Bonds or any right of any registered owner thereof, or to authorize or empower the Bondowners' Trustee to vote the claims of the owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the District is a party.

Any money collected by the Bondowners' Trustee at any time pursuant to the Bond Resolution shall be applied in the following order of priority: (i) first, to the payment of the charges, expenses, advances and compensation of the Bondowners' Trustee and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys; and (ii) 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, 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.

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 same unless: (i) an Event of Default has happened and is continuing; (ii) a Bondowners' Trustee has been appointed; (iii) such owner 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; (iv) the owners of 25% in principal amount of the Parity Bonds outstanding, 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; (v) 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 (vi) the Bondowners' Trustee has refused or neglected to comply with such request within a reasonable time.

Limitations of Remedies

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 subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to limitations on legal remedies against public utility districts in the State. The opinion to be delivered by Foster Pepper PLLC, as Bond Counsel, concurrently with the issuance of the Bonds, to the effect that the Bonds constitute legal, valid and binding obligations of the District and that the Bond Resolution constitutes a valid and binding obligation of the District, will be subject to such limitations, and the various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. In the event 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.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
AS OF DECEMBER 31, 2016 AND 2015

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Public Utility District No. 2 of Grant County, Washington

Financial Statements
December 31, 2016 and 2015

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Report of Independent Auditors

To the Board of Commissioners of
Public Utility District No. 2 of
Grant County, Washington

We have audited the accompanying financial statements of Public Utility District No. 2 of Grant County, Washington (the "District"), which comprise the statements of net position as of December 31, 2016 and December 31, 2015, and the related statements of revenues and expenses and changes in net position, and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 2 of Grant County, Washington as of December 31, 2016 and December 31 2015, and the 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.

Emphasis of a Matter

As discussed in Notes 1 and 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 72*, Fair Value Measurement and Application*, in 2016 and changed the manner in which they present certain fair value hierarchy disclosures related to investments. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

The accompanying management's discussion and analysis on pages 3 through 12 and the required supplementary information, Schedule of the District's Proportionate Share of the Net Pension Liability, Schedule of the District's Contributions and Schedule of Funding Progress for Postretirement Health Benefits Program on page 60 through 62, are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Supplemental Disclosures of Telecommunication Activities in Note 11 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Disclosures of Telecommunication Activities is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

April 28, 2017

As of December 31, 2016, Public Utility District No. 2 of Grant County, Washington (the "District") comprises two operating systems: the Electric System and the Priest Rapids Project which consists of the Priest Rapids Hydroelectric Production Development ("Priest Rapids") and the Wanapum Development ("Wanapum"). The Priest Rapids Project is operated under Federal Energy Regulatory Commission ("FERC") License, Project No. 2114.

Presented below is a discussion and analysis of the financial activities for the years ended December 31, 2016, 2015, and 2014. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District produced a positive change in net financial position of $82.2 million, $73.4 million, and $53.5 million during 2016, 2015, and 2014 respectively. Despite the regional challenges of low wholesale power prices, the District was able to add to the financial well-being of the utility. Two key components to this success are the slice contracts and pooling agreement of the Electric System to mitigate the effect of the fluctuation in wholesale power prices and water variability for generation (see "*Slice and Pooling Agreements*").

- As of March 2015, the reservoir behind Wanapum Dam was restored to normal operating level. The reservoir had been lowered due to a fracture that was discovered on the upstream side of Wanapum Dam's Spillway in February of 2014. The District, in coordination with FERC and other stakeholders, spent the remainder of 2014 and early 2015 resolving the fracture and the operational challenges it presented. In July of 2016, the District filed a proof of loss under its general liability insurance policy and claimed $13.2 million after the deductible. Details of the fracture and the course of action the District followed are discussed in Note 12 to the financial statements.

- In September of 2015, the rating agencies of Moody's, Standard & Poor's, and Fitch all reaffirmed their ratings of all Electric System and Priest Rapids Project bonds of Aa3/stable, AA/stable, and AA/stable, respectively. These ratings have been in effect from Moody's, Standard & Poor's, and Fitch since 2010, 2013, and 2005, respectively. The rationale for the ratings included strong operations, strong liquidity, equity funding of capital projects, strong availability, low production costs, low-cost power supply, and strong financial and risk management practices. These high grade credit ratings allow the District to receive competitive interest rates in the bond market and help keep the costs down for District ratepayers and power purchasers.

Sortable Table Key	Moody's	Fitch	S&P
Highest grade credit	Aaa	AAA	AAA
Very high grade credit	Aa1, Aa2, Aa3	AA+, AA, AA-	AA+, AA, AA-
High grade credit	A1, A2, A3	A+, A, A-	A+, A, A-
Good credit grade	Baa1, Baa2, Baa3, Baa4	BBB+, BBB, BBB-	BBB+, BBB, BBB-
Speculative grade credit	Ba1, Ba2, Ba3	BB+, BB, BB-	BB+, BB, BB-
Very speculative credit	B1, B2, B3	B+, B, B-	B+, B, B-
Substantial risks - In default	Caa1, Caa2, Caa3, Ca	CCC, CC, C, RD, D	CCC+, CCC, CCC-, CC, C, D

(Source: Wall Street Journal)

- In April of 2016, the District issued $50 million of revenue bonds to finance improvements to the Electric System through a direct placement bond held with Bank of America, N.A. In October of 2015, the District issued $90.7 million of revenue and refunding bonds and $90 million in Clean Renewable Energy Bonds, at a net premium of $10.7 million, associated with the Priest Rapids Project. The refunding of $97 million resulted in a net present value savings of $11.1 million. The $90 million in Clean Renewable Energy Bonds will benefit rate payers because of the Federal rebate of up to 70% on interest payments. These rebates are estimated to save net of sequestration $65 million (nominal) over the 25 year term of the bonds.

- The Commission continued its implementation of small, incremental rate increases. In January of 2015, 2016, and April of 2017, the Commission implemented 2.0% average annual rate increases to retail customers. The Commission-adopted budget and forecast has future overall annual rate increases of 2.0% for the foreseeable future. The largest driver of these rate increases is the rising cost to produce power at the Priest Rapids Project. Cost increases are related to the replacement of turbines and generators at the two dams as well as obligations to build parks, construct and operate fish hatcheries, and protect cultural resources as required in the District's federal license. Despite the production costs increases, the Priest Rapids Project remains among the lowest cost generation plants in the United States.

Electric System Significant Capital Projects:

- The District began construction work in late 2012 to build a 35.3 mile 230 kV transmission line that spans from the Rocky Ford Substation to the Columbia Substation. This project was completed on schedule and entered service early in 2014 at a cost of $46.2 million. The benefits include significant reduction of transmission costs, an improved ability to deliver power from the District's hydroelectric projects to customers, improved transmission system reliability, and allowing the District to better serve load growth in the central county area.

The Priest Rapids Project Significant Capital Projects:

- In 2008, the District determined the final scope and design of a long-term capital improvement project for the Wanapum facilities. A contract was awarded January 5, 2009, to Alstom Hydro US, Inc. (currently doing business as Alstom Power, Inc.) for approximately $150 million to upgrade all ten generators at Wanapum Dam. The on-site construction began in June of 2010 and is scheduled through April of 2020. The existing generators are currently rated at 109.25 megavolt-amperes ("MVA"). The new upgraded generators have a nameplate rating of 128.6 MVA, an increase of 17.7%. As of July 2016, seven of the ten generators have been replaced. The schedule is to replace one generator per year. As of December 31, 2016, the cost of the remaining Wanapum generators to be replaced is estimated at $28.6 million.

- In addition to the Wanapum turbine and generator replacement project, the District has completed most of the design and engineering work on turbine life extension/replacement and generator rewinds for the Priest Rapids Development. Turbine modeling and hydraulic design has been completed and a contract to supply turbines was awarded to Voith Hydro, Inc. in June of 2014 in the amount of $61.6 million. Generator rehabilitation was awarded to Alstom Power, Inc. in June of 2015 in the amount of $87.9 million. Governor replacement was awarded to L&S Electric, Inc. in December of 2014 in the amount of $1.7 million. The first unit upgrade at the Priest Rapids Development began in August of 2016 with a scheduled return to service in November of 2017.

- As part of the Federal Energy Regulatory Commission (FERC) license to operate the Priest Rapids Project, the District is required to make improvements to the Crescent Bar Recreation Area to enhance public access and recreation opportunities. These improvements, which include construction of a new campground, marina, two boat launches, parking area, walking trail, and day use areas, are currently underway and are due to be completed in the spring of 2018. The total cost to the District is estimated at $30 million.

Slice and Pooling Agreements

In an effort to increase net revenue stability by improving the predictability of wholesale revenues, the District entered into agreements for the Electric System's 63.3% physical share from the Priest Rapids Project (PRP) to Iberdrola Renewables, Inc. (Iberdrola) and Shell Energy North America (U.S.), L.P. (SENA). The agreements are summarized below.

- **Slice Agreements**: The District has entered into various "slice" sales from its retained 63.3% share. The agreements sell the capacity and inflows (potential) to buyers. The buyer assumes the risk of low precipitation years; the District obtains a stable revenue from the sale. In January of 2015, the District entered into an agreement with Iberdrola for a 10% slice of PRP from July 1, 2015, to June 30, 2018. The SENA agreement for 10% of PRP output was effective July 1, 2013, and terminated June 30, 2016. These agreements are paid in equal monthly installments over the lives of the agreements. The District regularly monitors its exposure with Iberdrola and SENA and retains the right to call for additional assurances at any time. The District has the right to curtail delivery in the event of nonpayment.

- **Pooling Agreement:** The District entered into an Agreement for Pooling of Priest Rapids Project Physical Output (the "Pooling Agreement") with SENA in September 2015. Under the Pooling Agreement, the District provides SENA with a portion of the District's share of the capacity in the Priest Rapids Project, and SENA provides 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. In addition, SENA provides certain scheduling services for the District, including managing power schedules, and the District provides certain flexibility to SENA within the District's balancing area authority. The term of the Pooling Agreement expires September 29, 2020.

  The Pooling Agreement provides for the delivery by the District to SENA of 43.3% of the capacity and associated energy of the Priest Rapids Project through June 30, 2016, and 53.3% of the capacity and associated energy from July 1, 2016, through September 29, 2020. The Pooling Agreement greatly 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, SENA has 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. 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 SENA or the District due to the seasonal differences between capacity and energy amounts and loads. In addition, certain nonhydrological performance metrics were assumed at the beginning of the contract and monthly differences in these metrics will be trued up and payment made by either SENA or the District. Upon entering the agreement, the District does not expect that there will be any significant monthly true-up payments. 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.

PRIEST RAPIDS PROJECT

The Priest Rapids Project consists of the Priest Rapids Dam and the Wanapum Dam.

Priest Rapids consists of a dam and hydroelectric generating station having a nameplate rating of 956,000 kilowatts ("kW"). 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.

Wanapum consists of a dam and hydroelectric generating station having a nameplate rating of 1,116,800 kW. Wanapum is located on the Columbia River in Grant and Kittitas Counties about 160 air miles northeast of the City of Portland, 129 air miles southeast of the City of Seattle, and 18 miles upstream of Priest Rapids.

During the year ended December 31, 2016, the Priest Rapids Project provided 9,193,102 net megawatt hours ("MWh") of electric energy at an average cost of $16.14 per MWh. During the year ended December 31, 2015, the Priest Rapids Project provided 8,677,766 net MWh of electric energy at an average cost of $18.04 per MWh. During the year ended December 31, 2014, the Priest Rapids Project provided 7,755,280 net MWh of electric energy at an average cost of $21.61 per MWh.

The timing of the runoff and spill requirements factor into the water available for generation from year to year. Runoff was 98%, 96%, and 103% of average for 2016, 2015, and 2014, respectively. The return of Wanapum to full operation for the majority of 2015 and all of 2016 combined with the decrease in extraordinary expenses and receipt of insurance proceeds associated with the fracture resulted in a 25% decrease in cost per MWh from 2014 to 2016.

OVERVIEW OF DISTRICT'S FINANCIAL STATEMENTS

This annual financial report consists of a series of financial statements and reflects the self-supporting, proprietary activities of the District funded primarily by the sale of electrical power. The District reports the business-type activities in a manner similar to private business enterprises. The District'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 the District'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 the District.

All of the revenues and expenses of the District are accounted for in the Statements of Revenues and Expenses and Changes in Net Position. These statements measure the success of the District's operations over the year and can be used to determine whether the District has successfully recovered all of its costs through rates and other charges.

The primary purpose of the Statements of Cash Flows is to provide information about the District'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.

CONDENSED COMPARATIVE FINANCIAL INFORMATION
(AMOUNTS IN THOUSANDS)

Statements of Net Position	**2016**	**2015**	**2014**
Assets			
Current	$ 222,395	$ 187,141	$ 185,986
Net utility plant	1,953,628	1,881,265	1,804,349
Noncurrent	410,306	402,218	374,270
Total assets	2,586,329	2,470,624	2,364,605
Deferred outflows of resources	13,795	11,522	10,313
Total assets and deferred outflows of resources	$ 2,600,124	$ 2,482,146	$ 2,374,918
Liabilities			
Current	$ 151,088	$ 128,437	$ 146,246
Noncurrent	1,450,355	1,430,341	1,367,732
Total liabilities	1,601,443	1,558,778	1,513,978
Deferred inflows of resources - pensions	926	7,837	18,796
Total liabilities and deferred inflows of resources	1,602,369	1,566,615	1,532,774
Net position			
Net Investment in capital assets	638,520	613,865	578,286
Restricted	160,550	146,705	134,619
Unrestricted	198,685	154,961	129,239
Total net position	997,755	915,531	842,144
Total liabilities, deferred inflows of resources and net position	$ 2,600,124	$ 2,482,146	$ 2,374,918

CONDENSED COMPARATIVE FINANCIAL INFORMATION
(AMOUNTS IN THOUSANDS)

Revenues and Expenses and Changes in Net Position	2016	2015	2014
Operating revenues	$ 286,316	$ 313,169	$ 308,665
Operating expenses	187,574	217,077	227,003
Net operating income	98,742	96,092	81,662
Other revenues (expenses)	(31,017)	(31,568)	(29,660)
Contributions in aid of construction	4,603	13,222	22,767
Extraordinary loss - Wanapum fracture	9,896	(4,359)	(21,269)
Change in net position	$ 82,224	$ 73,387	$ 53,500
Total net position - beginning of year	$ 915,531	$ 842,144	$ 849,965
Cumulative effect of change in accounting principle	-	-	(61,321)
Total net position - end of year	$ 997,755	$ 915,531	$ 842,144

FINANCIAL ANALYSIS

The following discussion provides comparative financial information for the years ended December 31, 2016, 2015, and 2014.

ASSETS

Total assets have increased from 2014 to 2015 by 4% and 5% from 2015 to 2016. This mirrors the increases in Net utility plant for the same periods and is driven by the continued investments in the turbines and generators at Wanapum, and other capital improvements in both systems. These investments align with the District's Strategic Plan objectives, which include delivering long term value and reliability to customers.

In 2014, the District recognized its share of the initial pension related deferred outflows of resources of $2.7 million due to the implementation of GASB 68. This balance included contributions to PERS subsequent to the June 30, 2014 measurement date of the net pension liability. Deferred outflows of resources related to pensions increased $5.7 million from 2014 to 2016 due to the District recording its proportionate share of the increase in collective deferred outflows for the PERS plans as provided by the Department of Retirement Systems. This increase in deferred outflows of resources has been partially off-set by the continued amortization of losses on refunding of debt in the amount of $2.2 million from 2014 to 2016.

LIABILITIES

The District had approximately $1.3 billion, $1.3 billion, and $1.25 billion in bonded debt for the years ended December 31, 2016, 2015, and 2014, respectively. In April of 2016, the District issued $50 million of revenue bonds to finance improvements to the Electric System through a direct placement bond held with Bank of America, N.A. In October of 2015, the District issued $90.7 million of revenue and refunding bonds at a net premium of $10.7 million and $90 million in Clean Renewable Energy Bonds, associated with the Priest Rapids Project to refund certain bonds previously issued, to finance improvements at the Priest Rapids Project, to pay issuance costs, and to fund a debt service reserve. The refunding of $97 million resulted in a net present value savings of $11.1 million. The Clean Renewable Energy Bonds have an authorized 70% refund from the Federal Government on interest payments made. In October of 2014, the District issued bonds to finance capital improvements for the Priest Rapids Project. The total par value of the bond offering was $204.2 million and $119.8 million of prior bond issues were refunded. The 2014 bonds were issued at fixed interest rates at a net original issue premium of $23.8 million. In November of 2014, the District issued $50 million in Electric System revenue bonds to finance capital improvements in the Electric System. The 2014 Electric System bonds are Adjusted SIFMA Index Floating Rate Bonds (32 basis points plus SIFMA Index) with a Par Call Date of June 1, 2017.

The implementation of GASB 68 required the District to recognize its share of the unfunded liability of the Public Employees' Retirement System (PERS). 2014 Noncurrent liabilities reflect the initial implementation of GASB 68 and the District's $43 million share of the unfunded liability. In 2015 and 2016, the District's share of the PERS liability increased by $9.5 million and $8.2 million, respectively, due to the changes in the actuarial valuation of the PERS collective net pension liability.

GASB 68 also required the District to recognize deferred inflows of resources related to the District's contributions to PERS. In 2014, the District recognized its share of the initial deferred inflows of resources of $18.7 million. Deferred inflows of resources decreased $17.8 million from 2014 to 2016 due to the District recording its proportionate share of the decrease in collective deferred inflows for the PERS plans as provided by the Department of Retirement Systems.

NET POSITION

Net position increased by $82.2 million, increased by $73.4 million, and decreased by $7.8 million in 2016, 2015, and 2014, respectively. During 2014, the District was able to make $53.5 million positive contributions to Net position despite the loss of generation due to the Wanapum fracture repairs and related reservoir drawdown, largely due to the fact that 35% of the Electric System's share of the Priest Rapids project was sold at a fixed cost regardless of output, also supported by a $10.8 million increase in Contributions in Aid of Construction over the prior year. Because of the change in accounting principles related to the implementation of GASB 68, the change in Net position showed a net decrease of $7.8 million in 2014. Results in 2015 and 2016 benefited from reduced market purchases, return of normal operations of the Wanapum Dam, and the effect on net wholesale revenues of the slice and pooling agreements mentioned previously.

STATEMENT OF REVENUES AND EXPENSES

Sales to power purchasers at cost are directly tied to power costs as defined in the long-term power sales contracts (operating expenses – noncash items + debt service – interest earnings). Additional expenses related to compliance with the license and other fish and operational costs have added to the revenues required to cover the cost of production. The extraordinary costs associated with the Wanapum fracture have resulted in a roughly $6.5 million increase in Sales to power purchasers at cost from 2013 to 2014. During 2015 Sales to power purchasers at cost returned to pre-fracture levels. The District saw lower than expected Sales to power purchasers at cost in 2016 due to $9.9 million of net insurance proceeds related to the Wanapum fracture.

Retail energy sales and Sales to other utilities revenues are reflective of the individual ebbs and flows of the economy through power consumption and market forces on wholesale power prices. The increase in operating revenues from 2014 to 2015 is the effect of the rate increases and growth in consumption especially in industrial customers. The decrease in operating revenues from 2015 to 2016 is largely driven by the Shell Pooling Agreement because revenue associated with the agreement is only reported net of firm retail load SENA provides the Electric System. This has decreased gross Sales to other utilities by $20 million and Purchased Power expense by $27 million to effectively zero in 2016 as the District needs to purchase less and less power on the open market to meet the Electric System's retail load. Net wholesale revenues (Sales to other utilities less Purchased power expense) were $28.4 million, $54.4 million and $62.5 million from 2014 to 2016, respectively. Purchased power expense was abnormally high in 2014 due to the lost generation at Wanapum requiring additional market purchases. In 2015 and 2016, Purchased Power Expense has significantly decreased due to the effect of the Pooling agreement and the return of Wanapum to normal operations which has decreased Purchased power expense from $52.7 million in 2014 to zero in 2016.

Most components of Other Revenues (Expenses) remained flat from 2014 to 2016 with the exception of Interest and Other Income which rose substantially from 2014 to 2016 because of improved investment strategy and stronger market conditions.

Contributions In Aid of Construction ("CIAC") were $4.6 million in 2016. CIACs in 2015 and 2014 were much higher, $13.2 million and $22.8 million, respectively, due to the completion of some large contracts with SGL Automotive, Yahoo!, Intergate Quincy, LLC, and Microsoft.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to provide the District's customers, bondholders, creditors, and other interested parties with a general overview of the District's finances. If you have questions about this report or need additional information, contact the District's Chief Financial Officer at the Public Utility District No. 2 of Grant County, P.O. Box 878, Ephrata, Washington 98823.

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015
(AMOUNTS IN THOUSANDS)

ASSETS	**2016**	**2015**
CURRENT ASSETS		
Cash	$ 742	$ 261
Investments	93,719	62,237
Restricted funds		
Cash	40,597	5,534
Investments	45,026	71,291
Customer accounts receivable, net of allowance for uncollectible accounts	23,250	28,769
Materials and supplies	17,582	17,418
Other current assets	1,479	1,631
Total current assets	222,395	187,141
NONCURRENT ASSETS		
Investments	168,640	145,643
Restricted funds		
Cash	1,380	985
Investments	237,476	252,887
Conservation loans	566	665
Demand-side management	1,025	1,391
Preliminary expenses	1,219	647
Total other noncurrent assets	410,306	402,218
Utility plant, net of accumulated depreciation and amortization	1,953,628	1,881,265
Total noncurrent assets	2,363,934	2,283,483
TOTAL ASSETS	2,586,329	2,470,624
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - pensions	8,428	5,004
Deferred outflows of resources - losses on refundings	5,367	6,518
Total deferred outflow of resources	13,795	11,522
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 2,600,124	$ 2,482,146

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015
(AMOUNTS IN THOUSANDS)

LIABILITIES AND NET POSITION	2016	2015
CURRENT LIABILITIES		
Trade payable	$ 32,528	$ 26,624
Wages payable	11,803	11,485
Due to power purchasers	4,441	1,462
Accrued taxes	6,490	6,713
Customer deposits	11,210	7,201
Accrued bond interest	30,607	28,415
Unearned revenue	6,007	628
Habitat liability	13,287	11,405
Other current liabilities	39	40
Current portion of licensing obligations	2,601	3,549
Current portion of long-term debt	32,075	30,915
Total current liabilities	151,088	128,437
NONCURRENT LIABILITIES		
Accrued other postemployment benefits	2,491	2,089
Long-term unearned revenue	964	1,071
Licensing obligations, less current portion	52,520	52,642
Pension obligations	60,922	52,761
Revenue bonds, less current portion	1,293,030	1,275,105
Unamortized bond premium, net of discount	40,428	46,673
Total noncurrent liabilities	1,450,355	1,430,341
TOTAL LIABILITIES	1,601,443	1,558,778
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resoureces - pensions	926	7,837
Total deferred inflows of resources	926	7,837
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,602,369	1,566,615
NET POSITION		
Net investment in capital assets	638,520	613,865
Restricted	160,550	146,705
Unrestricted	198,685	154,961
Total net position	997,755	915,531
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 2,600,124	$ 2,482,146

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015
(AMOUNTS IN THOUSANDS)

	2016	2015
OPERATING REVENUES		
Sales to power purchasers at cost	$ 40,001	$ 51,083
Retail energy sales		
Residential	40,252	39,127
Irrigation	23,876	24,481
Commercial and industrial	110,604	108,273
Governmental and others	1,066	1,034
Sales to other utilities	62,521	82,073
Wholesale fiber optic network sales	6,170	5,338
Other	1,826	1,760
Total operating revenues	286,316	313,169
OPERATING EXPENSES		
Purchased power	-	27,634
Generation	28,803	27,021
Transmission	4,634	10,843
Distribution	14,053	13,904
Customer and information services	5,979	6,850
Wholesale fiber optic network operations	1,325	1,280
Administrative and general	37,107	35,241
License compliance and related agreements	18,909	21,771
Depreciation and amortization	61,956	56,985
Taxes	14,808	15,548
Total operating expenses	187,574	217,077
NET OPERATING INCOME	98,742	96,092
OTHER REVENUES (EXPENSES)		
Interest and other income	10,008	4,600
Interest on revenue bonds and other, net of capitalized interest	(56,469)	(47,555)
Federal rebates on revenue bonds	10,545	8,214
Amortization of debt discount/premium	5,094	4,450
Cost of debt issuance	(195)	(1,277)
Total other revenues (expenses)	(31,017)	(31,568)
CONTRIBUTIONS IN AID OF CONSTRUCTION	4,603	13,222
EXTRAORDINARY LOSS - WANAPUM FRACTURE	9,896	(4,359)
CHANGE IN NET POSITION	82,224	73,387
NET POSITION		
Beginning of year	915,531	842,144
Total net position - end of year	$ 997,755	$ 915,531

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(AMOUNTS IN THOUSANDS)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retail energy sales	$ 181,168	$ 165,889
Cash received from sales to power purchasers at cost	42,210	78,309
Cash received from sales to other utilities	76,994	62,534
Other cash receipts	7,811	7,384
Net cash paid for customer deposits	3,880	(2,676)
Cash paid for purchase of power	(15,091)	(28,851)
Cash paid to contractors, suppliers, and employees	(110,516)	(125,494)
Cash paid for deposits	134	-
Taxes paid	(15,020)	(14,560)
Cash recovered/(paid) for extraordinary loss	9,896	(4,359)
Net cash provided by operating activities	181,466	138,176
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on revenue bonds	(30,915)	(29,589)
Interest paid on revenue bonds	(54,276)	(45,819)
Federal interest rebates	10,545	8,214
Bond proceeds	50,000	191,515
Payment on refunded debt	-	(101,037)
Bond issuance cost	(195)	(1,277)
Cash received from contributions in aid of construction	9,981	12,534
Licensing obligation payments	(3,604)	(3,805)
Acquisition and construction of plant assets	(125,728)	(146,128)
Proceeds on sale of plant assets	3,493	462
Miscellaneous nonoperating income	912	830
Net cash used in capital and related financing activities	(139,787)	(114,100)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(570,954)	(1,258,242)
Sale proceeds of investment securities	516,321	1,281,468
Investment income proceeds	8,794	5,863
Net repurchase agreements	40,000	(54,000)
Net cash received (paid) for conservation loans	99	(8)
Net cash used in investing activities	(5,740)	(24,919)
NET INCREASE (DECREASE) IN CASH	$ 35,939	$ (843)

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(AMOUNTS IN THOUSANDS)

	2016	2015
CASH AT END OF YEAR	$ 42,719	$ 6,780
CASH AT BEGINNING OF YEAR	6,780	7,623
NET INCREASE (DECREASE) IN CASH	$ 35,939	$ (843)
OPERATING ACTIVITIES		
Net operating income	$ 98,742	$ 96,092
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	61,956	56,985
Accretion expense	2,533	2,826
Earned revenue from deposits	(107)	(107)
Provision for uncollectible accounts	198	175
Cash received (paid) for extraordinary loss	9,896	(4,359)
Cash provided by (used in) changes in operating assets and liabilities:		
Change in habitat funds held in trust	1,584	(386)
Customer accounts receivable	6,089	(7,575)
Materials and supplies	(164)	417
Other current assets	153	193
Trade and wages payables	(3,638)	(6,954)
Payable to power purchasers	2,209	5,892
Deferred outflows - Pension	(3,423)	(2,307)
Deferred inflows - Pension	(6,910)	(10,959)
Pension obligation	8,161	9,545
Accrued taxes	(224)	975
Customer deposits	4,009	(2,658)
Accrued other postemployment benefits	402	381
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 181,466	$ 138,176

	2016	2015
Supplemental Disclosure		
Changes in construction costs included in accounts payable	$ 10,567	$ (15,252)

1. ORGANIZATION AND ACCOUNTING POLICIES

Public Utility District No. 2 of Grant County, Washington (the "District") is composed of two operating systems: the Electric System and the Priest Rapids Project. The Priest Rapids Project is operated under Federal Energy Regulatory Commission ("FERC") License, Project No. 2114. The District also maintains a Service System to provide administrative services to the operating systems. Internal transactions, including revenues and expenses between the District'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. The District is required by its financing arrangements to maintain separate accounts and to report separately on each operating system. See Note 13. The financing arrangements require maintenance of certain funds and application of accounting procedures prescribed by the State of Washington, which generally conform to those prescribed by FERC and accounting principles generally accepted in the United States of America. The accompanying financial statements are those of the District, which generates, transmits, and distributes electric energy and wholesale fiber optic network services within Grant County, Washington.

The District 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"). The District's accounting records generally follow the Uniform System of Accounts for public utilities and licensees prescribed by FERC except as it relates to the accounting for Contributions In Aid of Construction ("CIAC"). FERC prescribes for CIAC proceeds to be recorded as a reduction to plant.

In February 2015, GASB issued Statement No. 72, "Fair Value Measurement and Application," this Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The District adopted this Statement in 2016. (Refer to Note 2.)

In June 2015, GASB issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68," the objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The District is currently evaluating the financial statement impact of adopting these statements.

In June 2015, GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans other than Pension Plans" and Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions." The primary objective of these statements is to improve both the usefulness of information about postemployment benefits other than pensions (OPEB) included in the external financial reports of state and local OPEB plans and the accounting and financial reporting by state and local governments for OPEB. The statements replace Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans" and Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." These statements establish standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit OPEB, these statements identify the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined OPEB are also addressed. Statements No. 74 and No. 75 are effective for fiscal years 2017 and 2018, respectively. The District is currently evaluating the financial statement impact of adopting these statements.

In June 2015, GASB issued Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." The statement identifies the hierarchy of accounting principles used to prepare financial statements of state and local governments in conformity with generally accepted accounting principles. The adoption of this statement did not have a material effect on the District's financial statements.

In August 2015, GASB issued Statement No. 77, "Tax Abatement Disclosures." The statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The District is currently evaluating the financial statement impact of adopting this statement.

In December 2015, GASB issued Statement No. 78 "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" The statement establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting certain criteria. The District is currently evaluating the financial statement impact of adopting this statement.

In December 2015, GASB issued Statement No. 79, “Certain External Investment Pools and Pool Participants.” The statement establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost, as well as for state and local governments that participate in such a qualifying external investment pool. The District does not participate in any of the investment pools as defined by this statement; therefore, the pronouncement has no impact to the District’s financials.

In January 2016, GASB issued Statement No. 80, “Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14.” This Statement’s objective is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The District is currently evaluating the financial statement impact of adopting this statement.

In March 2016, GASB issued Statement No. 81, “Irrevocable Split Interest Agreements.” The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations where a government is a beneficiary of the agreement. The District has evaluated the financial statement impact of adopting this statement and determined it will not have a material impact on the District’s financial statements.

In March 2016, GASB issued Statement No. 82, “Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73.” The purpose of this statement is to address certain issues that have been raised with respect to Statement No. 67, No. 68 and No. 73. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of Statement 82 are effective for reporting periods after June 15, 2017. The District is currently evaluating the financial statement impact of adopting this statement.

In November 2016, GASB issued Statement No. 83, “Certain Asset Retirement Obligations.” An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. GASB Statement 83 establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to AROs. The requirements of Statement 83 are effective for reporting periods beginning after June 15, 2018, with earlier application encouraged. The District is currently evaluating the financial statement impact of adopting this statement.

***Revenue Recognition* –** The District recognizes revenues associated with power sales to its retail and wholesale customers when the power is delivered, which includes an estimate of revenue earned but not billed to customers as of year-end.

Revenues associated with power sales from the Priest Rapids Project under the Power Sales Contracts described in Note 6 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.

***SENA Pooling Agreement* –** With the implementation of the SENA Pooling Agreement (2016 was the first full year with the agreement in effect), the volume of open market power purchases required by the District has dropped dramatically because SENA provides firm power sufficient to meet the Electric System's retail load. All activity for the agreement (sales, purchases and other contractual monthly true-up payments) are presented net in either the "Sales to other utilities" or "Purchased power expense" line items on the Statement of Revenues and Expenses and Changes in Net Position. For 2016 and 2015 the agreement resulted in a net sale for the District. Additionally, in 2016, the District has changed its method of presenting certain financial benefits of the Priest Rapids Project in the Statements of Cash Flows as "Cash received from sales to other utilities" rather than as an offset to "Cash paid for purchase of power," due to the economic impact the SENA Pooling Agreement has on the District. This change in presentation has no impact on the net cash flows from operating activities.

***Allowance for Uncollectible Accounts* –** 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 historical experience. For 2016 and 2015, the allowance for uncollectible accounts was $211,000 and $409,000, respectively.

***Contributions in Aid of Construction* –** A portion of the District's utility plant is financed through contributions from customers in accordance with the District's Line Extension Policy. Additionally, a portion of utility plant may be financed through contributions from other sources, such as other governmental organizations. The District recognizes capital contributions from these sources as nonoperating revenue at the point at which it becomes nonrefundable. The District recognized $4.6 million and $13.2 million of contributions in aid of construction for the years ended December 31, 2016 and 2015, respectively.

Capitalized Interest – Interest costs incurred to finance major construction projects are capitalized as part of the cost of the project. The composite interest rate for calculating capitalized interest was 2.20% and 4.26% for 2016 and 2015, respectively. Interest capitalized during 2016 and 2015 was $5.2 million and $12.2 million, 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. The District's asset lives used for computing depreciation range from five to 100 years, with an average rate of 2.25% and 2.19% for 2016 and 2015, respectively. 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. The District 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.

Energy Conservation and Demand-Side Management ("DSM") Programs – The District's expenditures for regional conservation programs and other DSM programs which benefit future periods by reducing energy supply requirements have historically been capitalized and amortized over the expected useful lives of the programs. During 2009, the District began expensing DSM costs as Customer information and services expense. The balances accumulated prior to the change in accounting are being amortized over the original useful lives of the programs.

Cash –The District classifies only amounts held in demand deposit accounts as cash.

Investments – All investments are presented at fair value (refer to Note 2 for additional details). Discounts and premiums on investments are amortized as adjustments to interest income over the remaining term of the investments using the constant yield method.

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.

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.

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.

Due to Power Purchasers – This balance represents estimated power costs received by the Priest Rapids Project from power purchasers in excess of actual power costs, which will be paid to the power purchasers.

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.

Refunds of Debt – The gain or loss on refunding of debt is amortized over the remaining life of the refunded or newly issued bond, whichever is shorter. If debt is extinguished using the District's own reserves, any resulting gain or loss is recognized during the current period and recorded as a deferred inflow or outflow.

Unearned Revenue – Contributions In Aid of Construction that are refundable are recorded as unearned revenue. Additionally, the District has two long-term exchange contracts under which the District received collective prepayments of $2 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 – The District classifies its 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."

***Significant Risk and Uncertainties* –** The District 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.

The District self-insures for general and auto liability for amounts below an excess liability policy, and the District carries aircraft, foreign and employment policies below excess liability policies. The District is involved in litigation in the ordinary course of business with results that are uncertain but the risk to the District at this time is considered immaterial.

***Personal Leave Benefit* –** Employees of the District accrue a personal leave benefit based upon a years of service schedule. Personal leave may be used for vacation, sick leave, or other employee absences. The District records personal leave as an expense and a liability as earned. Unused personal leave may be accumulated up to a maximum of 1,200 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.

***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. The District has used significant estimates in determination of unbilled revenue, Licensing obligations, allowance for uncollectible accounts, Accrued other postemployment benefits, and depreciable lives of utility plant.

Energy Risk Management – The District's power marketing activities are limited to sales and purchases to meet surplus and deficits of expected forecasted load at the best available price. To mitigate risk in the portfolio, the District has: 1) established the Enterprise Risk Management Committee, 2) adopted the Energy Risk Management and Reporting Policy to structure ongoing monitoring and review of power transactions, and 3) entered into a five year transaction with SENA that largely removes the District from trading activities. The policy outlines the parameters for transactions, trader and counterparty exposure, and serves as a formal communication to all District employees performing power marketing functions. Although the District is entering into fewer physical purchases for load requirements during the term of the SENA Pooling Agreement, it will continue to meet the evolving demands of retail customers which include the pursuit of alternatively sourced power and environmental attributes beyond the requirements of the State of Washington.

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

2. CASH AND INVESTMENTS

The District's cash deposits at December 31, 2016 and 2015, were either entirely 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 the District'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 board-designated funds. Board designated funds are a component of unrestricted assets as their use may be redirected at any time by Commission approval.

As of December 31, the District's unrestricted, board designated, and restricted assets included on the Statement of Net Position as Cash and Investments, including accrued interest, consisted of the following:

(AMOUNTS IN THOUSANDS)	2016	2015
Unrestricted assets:		
Unrestricted funds:		
Revenue and Service System funds	$ 136,227	$ 83,838
Board designated funds:		
Electric System Reserve and Contingency fund	125,820	123,243
Self-Insurance Reserve fund	1,054	1,060
Total board designated funds	126,874	124,303
Total unrestricted funds	263,101	208,141
Restricted:		
Construction funds	107,793	131,834
Bond Sinking funds	128,297	113,564
Debt Service Reserve funds	61,143	59,808
Renewal, Replacement and Contingency fund	12,133	12,016
Habitat funds	13,387	11,732
Quincy Chute Renewal and Replacement fund	1,726	1,743
Total restricted funds	324,479	330,697
Total	$ 587,580	$ 538,838

Interest Rate Risk – The District has adopted a formal investment policy and an investment oversight committee which monitors its investment position limitations as a means of managing its exposure to fair value losses arising from increasing interest rates. To further mitigate risk of selling investments early to meet unexpected cash flow needs, a minimum of 20% of the total portfolio will be comprised of investments maturing within one year.

Credit Risk – The District has adopted a formal investment policy that specifies minimal credit rating acceptability criteria of potential investment issuers as well as both a wholesale and retail electric power customer credit risk management program as a means of managing the District's exposure to credit risk. 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.

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

Concentration of Credit Risk – The District's adopted 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 fifty percent (50%) of the total portfolio par value will be invested in government sponsored agencies, supranational institutions or municipal bonds, and no more than twenty-five percent (25%) of the total portfolio par value will be invested in corporate bonds and commercial paper. Credit concentration of the District's investment portfolio is actively monitored by the investment oversight committee as required by the District's adopted 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 as of December 31, 2016. TSY refers to U.S. Treasury securities and N/R means not rated.

Investments by Issuer	Credit Rating	2016	2015
U.S. Treasuries	TSY	31%	38%
Federal Home Loan Bank	AA+	5%	4%
Federal National Mortgage Assoc.	AA+	4%	8%

The District's investments at December 31, 2016 and 2015, 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 the District or are held by the District or by the District's agent in the District's name. The difference between the totals shown in the previous table and table below is accrued interest of $3.2 million and $2.6 million for 2016 and 2015, respectively.

During 2016 and 2015, the District realized $9.3 million and $6.3 million of interest earnings and realized gains from investments, respectively. The unrealized net gain/loss on investments held at December 31, 2016 and 2015, was a $2.4 million net loss and a $2.6 million net loss, respectively. Investments are made in investment types authorized by Washington State law. The types are 1) Obligations of the U.S. Government and its agencies, 2) Repurchase agreements collateralized by U.S. Government obligations, 3) Supranational institutions, 4) Money market funds that have holdings of or are backed by U.S. Government obligations 5) Municipal bonds and 6) Corporate bonds and commercial paper. Investments by type at December were as follows:

(AMOUNTS IN THOUSANDS)	**2016**	**2015**
U.S. Treasuries	$ 182,624	$ 205,842
Municipal Bonds	184,588	133,586
U.S. Agencies	102,972	107,564
Repurchase Agreements	28,000	68,000
Commercial Paper	28,071	14,482
Supranational Institutions	15,423	-
Total investments	541,678	529,474
Cash	42,719	6,780
Total cash and investments	$ 584,397	$ 536,254

Fair Value Measurements - The District's investments have been adjusted to reflect fair value measurements as of December 31, 2016, obtained from available financial industry valuation sources. The District categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72 "Fair Value Measurement and Application," which has been adopted in 2016. 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. In particular, the District valued its US 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 the District's fair value measurements as of December 31, 2016 and 2015:

(AMOUNTS IN THOUSANDS)	Total 12/31/2016	Level 1	Level 2	Level 3
Investments by fair value level				
Debt Securities				
Municipal Bonds	$ 184,588	$ -	$ 184,588	$ -
U.S. Treasuries	182,624	182,624	-	-
U.S. Agencies	102,972	-	102,972	-
Commercial Paper	28,071	-	28,071	-
Repurchase Agreements	28,000	-	28,000	-
Supranational Institutions	15,423	-	15,423	-
Total investments by fair value level	$ 541,678	$ 182,624	$ 359,054	$ -

(AMOUNTS IN THOUSANDS)	Total 12/31/2015	Level 1	Level 2	Level 3
Investments by fair value level				
Debt Securities				
U.S. Treasuries	$ 205,842	$ 205,842	$ -	$ -
Municipal Bonds	133,586	-	133,586	-
U.S. Agencies	107,564	-	107,564	-
Repurchase Agreements	68,000	-	68,000	-
Commercial Paper	14,482	-	14,482	-
Total investments by fair value level	$ 529,474	$ 205,842	$ 323,632	$ -

3. UTILITY PLANT

Utility plant of the District as of December 31, 2016, and December 31, 2015, is summarized as follows:

(AMOUNTS IN THOUSANDS)	Balance 2015	Additions	Retirements/ Transfers	Balance 2016
Distribution facilities	$ 494,080	$ 10,738	$ (280)	$ 504,538
Transmission facilities	240,843	297	-	241,140
Hydro facilities				
Power plant structures	73,227	62,789	(1,156)	134,860
Reservoirs, dams, waterways	495,941		-	495,941
Power plant equipment	567,504	11,946	(408)	579,042
General facilities				
Quincy Chute (Note 6)	17,771	-	-	17,771
Potholes East Canal (Note 6)	16,450	-	-	16,450
Other generation	30	-	-	30
General plant	408,709	67,542	(402)	475,849
FERC License	119,355	-	-	119,355
Other intangible assets	27,769	6,228	-	33,997
Total	2,461,679	159,540	(2,246)	2,618,973
Accumulated depreciation and amortization	(870,451)	(61,874)	1,716	(930,609)
Subtotal	1,591,228	97,666	(530)	1,688,364
Land and land rights	24,618	-	-	24,618
Construction in progress	265,419	134,669	(159,442)	240,646
Total net utility plant	$ 1,881,265	$ 232,335	$ (159,972)	$ 1,953,628

(AMOUNTS IN THOUSANDS)	Balance 2014	Additions	Retirements/ Transfers	Balance 2015
Distribution facilities	$ 472,631	$ 21,735	$ (286)	$ 494,080
Transmission facilities	228,683	12,435	(275)	240,843
Hydro facilities				
Power plant structures	74,845	126	(1,744)	73,227
Reservoirs, dams, waterways	410,252	83,945	1,744	495,941
Power plant equipment	543,586	25,057	(1,139)	567,504
General facilities				
Quincy Chute (Note 6)	17,771	-	-	17,771
Potholes East Canal (Note 6)	16,450	-	-	16,450
Other generation	30	-	-	30
General plant	351,970	56,739	-	408,709
FERC License	119,335	20	-	119,355
Other intangible assets	24,670	3,099	-	27,769
Total	2,260,223	203,156	(1,700)	2,461,679
Accumulated depreciation and amortization	(815,038)	(57,113)	1,700	(870,451)
Subtotal	1,445,185	146,043	-	1,591,228
Land and land rights	24,618	-	-	24,618
Construction in progress	334,546	132,365	(201,492)	265,419
Total net utility plant	$ 1,804,349	$ 278,408	$ (201,492)	$ 1,881,265

4. LICENSING

The Priest Rapids Project is operated under a 44-year FERC license that expires in 2052. Costs associated with the relicensing efforts, totaling $62.2 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 $19.1 million and $16.4 million as of December 31, 2016 and 2015, respectively.

Under the license, the District is committed to numerous obligations related to fish and habitat protection which require payments to other organizations using funds provided by the District. The present value of these obligations totaled $55.1 million as of December 31, 2016, of which approximately $2.6 million is expected to be paid within one year. The present value of the obligations was $56.1 million as of December 31, 2015. 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 7.

5. REVENUE BONDS

In April of 2016, the District issued $50 million of revenue bonds to finance improvements to the Electric System through a direct placement bond held with Bank of America, N.A. In October of 2015, the District issued $90.7 million of revenue and refunding bonds at a net premium of $10.7 million and $90 million in Clean Renewable Energy Bonds, associated with the Priest Rapids Project to refund certain bonds previously issued, to finance improvements at the Priest Rapids Project, to pay issuance costs, and to fund a debt service reserve. The refunding of $97 million resulted in a net present value savings of $11.1 million. The Clean Renewable Energy Bonds have an authorized 70% refund from the Federal Government on interest payments made.

The District's total outstanding bonds of $1.3 billion are mostly comprised of fixed rate debt and are secured by a pledge of the net revenues of the District and are on parity with each other.

The District's variable rate outstanding bonds total $100 million and are secured by a pledge of the net revenues of the District of which $50 million is on parity with the senior fixed rate bonds and $50 million is subordinated junior lien bonds.

The District's outstanding revenue bonds as of December 31 were as follows:

(AMOUNTS IN THOUSANDS)	2016	2015
Electric System, interest rates of .84% to 5.0%, maturing through 2044	$ 244,795	$ 194,795
Priest Rapids Project, interest rates of 1.79% to 5.83%, maturing through 2044	1,080,310	1,111,225
Total revenue bonds outstanding	$ 1,325,105	$ 1,306,020

Scheduled debt service requirements for the District's bonds are as follows:

(AMOUNTS IN THOUSANDS)	Principal	Interest	Total
2017	$ 32,075	$ 61,319	$ 93,394
2018	31,610	59,941	91,551
2019	93,590	57,918	151,508
2020	45,655	55,603	101,258
2021 - 2025	189,655	246,224	435,879
2026 - 2030	264,410	187,389	451,799
2031 - 2035	247,165	124,230	371,395
2036 - 2040	319,865	66,415	386,280
2041 - 2044	101,080	6,412	107,492
Total	$ 1,325,105	$ 865,451	$ 2,190,556

For the years ending December 31, 2016 and 2015, the District is in compliance with all financial covenants related to the outstanding bonds, which includes a minimum debt service coverage of 1.15x and 1.25x for the Priest Rapids Project bonds and Electric System bonds, respectively.

During the years ended December 31, the following changes occurred in the District's long-term debt:

(AMOUNTS IN THOUSANDS)	Balance 2015	Additions	Reductions	Balance 2016	Due Within One Year
Revenue bonds payable	$ 1,306,020	$ 50,000	$ (30,915)	$ 1,325,105	$ 32,075
Unamortized premiums and discounts, net	46,673	-	(6,245)	40,428	-
Total	$ 1,352,693	$ 50,000	$ (37,160)	$ 1,365,533	$ 32,075

(AMOUNTS IN THOUSANDS)	Balance 2015	Additions	Reductions	Balance 2016	Due Within One Year
Revenue bonds payable	$ 1,251,775	$ 180,720	$ (126,475)	$ 1,306,020	$ 30,915
Unamortized premiums and discounts, net	45,578	10,675	(9,580)	46,673	-
Total	$ 1,297,353	$ 191,395	$ (136,055)	$ 1,352,693	$ 30,915

6. POWER PURCHASER COMMITMENTS

Priest Rapids Project

Under the Priest Rapids Power Sales Contracts, the amount of net power costs incurred by the District in serving its load changes on an annual basis in relation to its firm power requirements. The District incurred 73.4% and 67.4% of Priest Rapids Project power costs with power purchasers funding 26.6% and 32.6% for 2016 and 2015, 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.

Bonneville Power Administration (BPA)

The District is a statutory preference customer of BPA. The District signed a BPA preference contract during 2008 to serve its Grand Coulee load of approximately 5 average megawatts (“aMW”) that expires September 30, 2028. The District has purchased from BPA the transmission required to deliver the power associated with this load through September 30, 2028. In 2009, the District entered into a five-year agreement for 150 MW of Long-Term Firm (LTF) transmission, and this agreement expired on December 31, 2015. This 150 MW of transmission is no longer needed due to the completion of the new Columbia/Rocky Ford 230 kV line in February 2014. The District has 12 MW of transmission for the delivery of power from the Nine Canyon Wind Project with a term expiring on October 1, 2030.

District management estimates the District’s minimum commitments to BPA for the next five years are as follows:

Estimated BPA Contractual Payments
(AMOUNTS IN THOUSANDS)

2017	$	973
2018		1,026
2019		1,440
2020		2,519
2021		2,538

Nine Canyon Wind Power Purchase Agreement

The District 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 District does not participate in the two other phases of the Project which comprise additional generation capacity of approximately 48 MW. The phases are operated together as a single project under an amended power purchase agreement.

The District is one of nine public agencies participating in the original project power purchase agreement for Phase I of the Project. The District’s purchaser share of Phase I of the project output was 25% of output up to a maximum of 12 MW. Since the District did not participate in either Phase II or Phase III of the Project, its share of the combined Project is 12.54%. In exchange for the output, the District pays its proportionate share of certain Project costs and its 25% share of Phase I debt service.

Scheduled debt service requirements, inclusive of principal and interest, for the District’s 25% share of the bonds as well as certain other Project costs are estimated at $2 million annually.

Yakama Nation Agreement

In 2007, the District 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 the District 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 2016 to the remainder of the agreement. The net payments to the Yakama Nation totaled $75,649 and $468,733 during 2016 and 2015, respectively. The agreement expires at the end of the FERC license term (2052). The projected annual cost for this agreement is listed in the table below.

Estimated Yakama Nation Contractual Payments
(AMOUNTS IN THOUSANDS)

2017	$	671
2018		465
2019		497
2020		628
2021		678
2022		843

Other Sources

Pursuant to agreements with three irrigation districts, the District 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.

7. NONPOWER COMMITMENTS

Capital Projects

The District has contractual commitments relating to several Electric System capital improvement projects including electrical system upgrades, multiple transformer purchases, power cable purchases, and substation and distribution line construction projects over the next few years totaling approximately $23.8 million as of December 31, 2016.

The District's improvement programs for the Priest Rapids Project include restoration or replacement of generators, turbine upgrades, construction and upgrades to project support buildings, development of Crescent Bar recreation area, construction and renovation of hatcheries, construction of recreation facilities, supplying GSU transformers and supplying trunnion cylindrical bearings for spillway gates. The District intends to, or has committed by contract to, fulfill these programs, which are projected to be substantially complete by 2026. The contractually committed amount on future Priest Rapids Project work to be performed on these major capital programs is approximately $304.5 million as of December 31, 2016.

Other Commitments

In 2006, the District entered into a Salmon and Steelhead Settlement Agreement with the United States Department of Interior, the U.S. Fish and Wildlife Service, the National Marine Fisheries Service of the National Oceanic and Atmospheric Administration (NOAA), 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. 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) which pass or may be affected by the Priest Rapids Project.

Under the Salmon and Steelhead Settlement Agreement, the District is obligated to establish a habitat conservation account and a no-net-impact fund (referred herein as “Habitat funds”) into which the District 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 (U.S. Fish and Wildlife Service, NOAA Fisheries, Washington Department of Fish and Wildlife, Confederated Colville Tribes, Yakama Nation, and the District).

In addition to the Habitat funds discussed above, the District is obligated to establish a habitat account into which the District 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 parties identified above 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 the District. Expenditures of these funds are made in accordance with the Salmon and Steelhead Settlement Agreement and the 2008 NOAA Fisheries BiOp for the protection and restoration of habitats along the mainstem and tributaries within the UCR watershed including the Okanogan, Methow, Entiat, and Wenatchee watersheds. The District anticipates funding these accounts up to and through the term of its FERC license.

In October of 2006, the District 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, the District 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 as described below.

To remain in compliance under Part A ("Hatchery Renovation"), the District is required to provide funds (not to exceed $1.5 million) to renovate the existing Columbia Basin Hatchery facility to ensure stable operations at current capacity for the term of the license. Current capacity is 60,000-70,000 pounds of trout annually, which shall be credited to the District as mitigation for reduced recreational fishing opportunities occurring on native resident fish species. Under Part B ("Resident Fish Monitoring and Trout Purchase"), the District 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. The District is required to make contributions to the fund annually on or before February 15 of each year in the amount of $100,000 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), the District is required to assist the Washington Department of Fish and Wildlife in fire suppression by contributing $40,000 annually 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.

The District's total contributions to these Habitat funds for the years ended December 31, 2016, and December 31, 2015, equaled $2.6 million and $3.5 million, respectively. These contributions reduced the Licensing obligations, as discussed in Note 4.

The following table shows the District's estimate of the remaining fixed contributions to the Habitat funds as of December 31, 2016, representing required contributions through the FERC License term (2052).

Estimated Fixed Habitat Funding Commitments
(AMOUNTS IN THOUSANDS)

2017	$	2,717
2018		2,762
2019		2,809
2020		1,721
2021		1,750
2022 and thereafter		68,516
Total	$	80,275

Northwest Open Access Network, Inc. D.B.A. NoaNet – The District withdrew its membership in NoaNet in July of 2014, but remains a participant with respect to certain debt of NoaNet. NoaNet, a Washington non-profit mutual corporation, was established in 2000 and is currently comprised of 9 Washington State Public Utility Districts and Energy Northwest. NoaNet provides a broadband communications backbone, over Public Benefit Fibers leased from BPA, throughout the State of Washington to assist its members in the efficient management of load, conservation, and acquisition of electric energy as well as other purposes.

In 2001, NoaNet issued $27 million in bonds to finance, among other things, the acquisition and construction of necessary facilities and systems. In 2011, NoaNet issued $13.2 million to refund most of the NoaNet 2001 bonds. The Electric System had previously guaranteed the repayment of up to approximately $1.43 million of NoaNet's remaining 2011 bonds. As of December 2016, these bonds were completely paid.

In addition, NoaNet had an outstanding $5 million loan with a commercial lender, of which the District previously guaranteed 17.57% of the outstanding balance in the event of NoaNet's revenues being insufficient. This loan was refinanced in 2016 (subsequent to the District withdrawing its membership in 2014) effectively discharging the District's guarantee.

8. PENSION / RETIREMENT PLANS

State Sponsored Pension Plans

Substantially all the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit 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 comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at 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 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 two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and

Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions
The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1 **Actual Contribution Rates:**	**Employer**	**Employee**
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	12.00%

The District's actual contributions to the plan were $2,976,853 and $2,503,192 for the years ended December 31, 2016 and 2015, respectively.

PERS Plan 2/3 provide retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit 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 nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL (Unfunded Actuarial Accrued Liability) and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3 **Actual Contribution Rates:**	**Employer**	**Employee**
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.12%

The District's actual contributions to the plan were $3,752,850 and $3,025,799 for the years ended December 31, 2016 and 2015, respectively.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation

- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

- Investment rate of return: 7.5%

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

There were minor changes in methods and assumptions since the last valuation:

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 Basic Minimum COLA.

- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.

- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.

- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate
The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, whose rates include a component for the PERS 1, plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return
The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Asset Class		
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

(AMOUNTS IN THOUSANDS)	1% Decrease 6.5%	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 33,996	$ 28,191	$ 23,196
PERS 2/3	60,264	32,731	(17,038)

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 June 30, 2016 and 2015, respectively, the District reported a total pension liability of $60,922,127 and $52,760,651 for its proportionate share of the net pension liabilities as follows:

Liability (AMOUNTS IN THOUSANDS)	**2016**	**2015**
PERS 1	$ 28,191	$ 28,490
PERS 2/3	32,731	24,271
Total	$ 60,922	$ 52,761

At June 30, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/2015	**Proportionate Share 6/30/2016**	**Change in Proportion**
PERS 1	0.544648%	0.524928%	-0.019720%
PERS 2/3	0.679264%	0.650080%	-0.029184%

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

The collective net pension liability was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the years ended December 31, 2016 and 2015, respectively, the District recognized pension expense as follows:

Pension Expenswe (AMOUNTS IN THOUSANDS)	2016	2015
PERS 1	$ 432	$ (49)
PERS 2/3	3,893	3,042
Total	$ 4,325	$ 2,993

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016 and 2015, respectively, the District recognized deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
(AMOUNTS IN THOUSANDS)	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS Plan 1				
Net difference between projected and actual investment earnings on pension plan investments	$ 710	$ -	$ -	$ 1,512
Contributions subsequent to measurement date	1,488	-	48	-
Total	$ 2,198	$ -	$ 48	$ 1,512

(AMOUNTS IN THOUSANDS)	2016 Deferred Outflows of Resources	2016 Deferred Inflows of Resources	2015 Deferred Outflows of Resources	2015 Deferred Inflows of Resources
PERS Plan 2/3				
Differences between expected and actual experience	$ 1,743	$ 1,080	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	4,005	-	2,580	6,479
Changes of assumptions	338	-	39	(154)
Changes in proportion and differences between contributions and proportionate share of contributions	(1,807)	(154)	(870)	-
Contributions subsequent to measurement date	1,951	-	3,207	-
Total	$ 6,230	$ 926	$ 4,956	$ 6,325

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016.

9. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")

Plan Description

The District administers a single-employer defined benefit premium program ("the retiree subsidy plan"). The plan provides a subsidy that covers a portion of healthcare insurance for retirees ages 59½ to 65 and their spouses. The retiree subsidy plan may be amended through collective bargaining (for bargaining unit employees) and ratified by the District's Commission, or changed without bargaining for nonunit employees. The retiree subsidy plan does not issue a publicly available financial report.

Funding Policy

The District pays a percentage of the medical premiums based upon years of service of the retirees. At the age of 59½, the retiree is eligible for a subsidy of 3% of their premium cost for each year of service up to 30 years (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. For the years ended December 31, 2016 and 2015, the District paid approximately $142,000 and $188,000 in retiree subsidies, respectively.

Annual OPEB Cost and Net Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution ("ARC") of the employer. The District's ARC and related information is based upon an actuarial valuation as required by GASB Statement No. 45. As of year-end, the net OPEB obligation represents the cumulative difference in ARC and payments made through the plan since actuarial accounting began in 2007. The following table shows the components of the District's annual OPEB cost for the years ended December 31, 2016 and 2015:

(AMOUNTS IN THOUSANDS)	2016	2015
Normal cost with interest	$ 350	$ 375
Amortization amount with interest	194	194
Annual required contribution	$ 544	$ 569
Annual OPEB cost	$ 544	$ 569
Less: benefit payments	(142)	(188)
Increase in net OPEB obligation	402	381
Net OPEB obligation at beginning of year	2,088	1,707
Net OPEB obligation at end of year	$ 2,490	$ 2,088

Funded Status and Funding Progress

As of December 31, 2016 and 2015, the District's Actuarial Accrued Liability ("AAL") was $6.2 million and $5.8 million, respectively, all of which was unfunded. The District has no plans at this time to fund the obligation using an irrevocable trust. The AAL is being amortized over a 30-year period and the increase in net OPEB obligation is accrued each year and is split between the District systems, based on current labor allocations. For 2016 and 2015, the covered payroll (annual payroll of active employees covered by the plan) was $54 million and $56 million, respectively, and the ratio of the unfunded obligation to the covered payroll was 11.5% and 10.3%, respectively.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of the valuation and the sharing of benefit costs between the employer and plan members in effect at the time of the valuation which was December 31, 2015. The Entry Age Normal method is used to develop an Annual Required Contribution and an Actuarial Accrued Liability. The UAAL amortization was changed to a level percentage of payroll over 30 years instead of a level dollar.

The following are the significant assumptions related to the plan's actuarial liability:

***Retirement age for active employees* –** Based on assumptions used by the Office of the State Actuary in Olympia, Washington but adjusted to reflect expected future rates of retirement based on current experience of the District.
***Mortality* –** Rates of mortality are the same that were used for PERS participants in the June 30, 2015, actuarial valuation published by the Office of the State Actuary.
***Medical trends* –** Premium increases of 7.7% in 2017, decreasing to 5.2% in 2018, and declining percentages in future years. It is assumed that the monthly premium and maximum employer subsidy amounts will increase at a slower rate than future claims in the immediate future.
***Discount rate* –** The discount rate of 3.5% was used in the valuation to reflect expected investment returns. This rate is used because the Plan is "unfunded" and the District's assets would be used to pay benefits.

10. CONTINGENCIES

On July 28, 2015, the District's Board of Commissioners approved a settlement that resolves the dispute with Crescent Bar Island residents concerning the use of real property on District land. The settlement allows 80 percent of the Crescent Bar area previously under lease to be made fully available to the public. FERC approved the leases in November of 2016, which have a term from the effective date of December 1, 2016, through April 1, 2052. The District has the right beginning April 1, 2042, to provide five years' written notice to the lessees to notify them of termination (i.e. earliest termination could occur April 1, 2047). The leases require the residents to pay fair-market rent to the District retroactive to 2012 and would also require them to pay for necessary wastewater treatment capital upgrades and fire-safety infrastructure. The settlement does not require any financial payment from the District to the Crescent Bar Island residents.

The District is involved in various claims arising in the normal course of business. The District does not believe that the ultimate outcome of these matters will have a material impact on its financial position, results of operations, or cash flows.

11. SUPPLEMENTAL DISCLOSURE OF TELECOMMUNICATION ACTIVITIES

The District is installing a wholesale fiber optic network in its service area. This fiber optic network is interconnected with multiple regional and national telecommunications carriers, including NoaNet's fiber optic network. The wholesale fiber optic network is available to retail providers of Internet, telephone, and video services. The District has also recently 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:

(AMOUNTS IN THOUSANDS)	2016	2015
Operating revenues		
Wholesale fiber services	$ 5,663	$ 4,972
Dark fiber revenue	447	349
Wireless fiber revenue	60	17
Wholesale fiber optic network sales	$ 6,170	$ 5,338
Operating expenses		
Administrative and general	$ 276	$ 443
Repairs and maintenance	1,049	837
Depreciation	7,049	6,483
Total operating expenses	$ 8,374	$ 7,763
Nonoperating revenues		
Contributions in aid of construction	$ 14	$ 313
Utility plant		
Additions to utility plant	$ 5,363	$ 7,082
Utility plant, net of accumulated depreciation	87,547	89,185

12. EXTRAORDINARY LOSS – WANAPUM FRACTURE

On February 27, 2014, a horizontal fracture was discovered on the upstream side of Wanapum Dam's Spillway Monolith Number 4. The fracture ran the length of the 65-foot-wide monolith and was two inches tall at its widest point. A spillway monolith, and its associated pier, is the structure that supports the spillway gates. There are 13 spillway monoliths and 12 spillway gates at Wanapum Dam. Each monolith is independent of the others. Eleven of the monoliths are 65 feet wide and the two end ones are half monoliths. Wanapum Dam is 8,637 feet wide.

After consulting FERC, the District began to draw down the elevation of the Wanapum reservoir by 26 feet to reduce pressure on the monolith. A survey of the structure on March 4, 2014, showed that the fracture had closed and the monolith was stable. An examination of the upstream face of the dam found no other fractures similar to the fracture found on Monolith No. 4.

Following an 11-week investigation, it was determined that a mathematical error during the pre-construction design of Wanapum Dam was the primary contributing factor to the fracture. When engineers recalculated the original design formulas, they found that additional concrete or reinforced steel should have been included in the construction of Monolith No. 4 and all of the other 12 monoliths on Wanapum Dam. No other mathematical errors were discovered by the experts performing the investigation.

Repair work began within 8 weeks of the discovery of the fracture. The District has repaired the fracture in Monolith No. 4 and anchored all 13 monoliths. Anchoring included installing additional steel reinforcements from the top of the monoliths, through the concrete, and into bedrock below the dam. As of April 1, 2015, all anchors have been installed.

Repairs and additional capital work were completed before the summer recreation season of 2015. During the repair, Wanapum Dam continued to operate and the District continued to meet its obligations with regard to fish passage, flood-control, irrigation, cultural resource protection, public safety, and electric generation. Recreational activities were modified to reflect water elevation and safety and culture concerns. At its lowest levels, Wanapum Dam was capable of generating electricity at between 50 to 60 percent of capacity. As of March 21, 2015, the water level behind Wanapum Dam was restored to a normal operating range of 560 to 571.5 feet above sea level.

The financial impact of the fracture has been manageable for the District. An Extraordinary loss of $21.3 million was recognized in 2014 of which $18 million is associated with repairs and additional operating costs associated with the fracture. The remaining $3.3 million relates to a noncash permanent write down of the original spillway cost to comply with Governmental Accounting Standards Board Statement No. 42 related to asset impairment.

During 2015, the remaining repairs were completed at an additional cost of $7.1 million and insurance proceeds of $2.7 million were received resulting in the extraordinary loss of $4.4 million. During 2016 the District received $10.5 million of insurance proceeds and incurred final clean-up expenses of $0.6 million resulting in the $9.9 million extraordinary gain for the year. The District concluded that expenses incurred related to restoration of the fracture were not a part of the normal life cycle of the dam and therefore met the definition of an extraordinary item as the event was both unusual and infrequent in nature. In order to correct the original design error in the structure incremental capital costs were incurred to properly anchor the dam into the bedrock with additional steel and concrete reinforcements. The total capital expenditures for these structural improvements were $62.4 million. The District does not anticipate any further costs or recoveries related to the fracture

13. SEGMENTS

The District has outstanding revenue bonds used to finance the Electric System and the Priest Rapids Project hydroelectric production facilities. As described in Note 5, all the outstanding bond issues, which are on parity with each other, are secured by a pledge of the net revenues of the District. 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 the District.

Each system has an external requirement to be accounted for separately. The following condensed financial statements of the operating segments of the District include the Electric System and the Priest Rapids Project. The District’s Service System, as well as eliminating internal transactions, is presented as “Other” in order to reconcile to the combined District’s results. “Other” is not considered a segment of the District.

CONDENSED STATEMENT OF NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
ASSETS				
Current assets	$ 174,269	$ 114,520	$ (66,394)	$ 222,395
Net utility plant	571,248	1,382,380	-	1,953,628
Noncurrent	285,619	197,658	(72,971)	410,306
TOTAL ASSETS	1,031,136	1,694,558	(139,365)	2,586,329
Deferred outflows of resources	19,920	10,307	(16,432)	13,795
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,051,056	$ 1,704,865	$ (155,797)	$ 2,600,124
LIABILITIES				
Current	$ 50,675	$ 122,762	$ (22,349)	$ 151,088
Noncurrent	277,664	1,289,680	(116,989)	1,450,355
TOTAL LIABILITIES	328,339	1,412,442	(139,338)	1,601,443
Deferred Inflows of resources	375	16,984	(16,433)	926
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	328,714	1,429,426	(155,771)	1,602,369
NET POSITION				
Net investment in capital assets	336,417	184,089	118,014	638,520
Restricted	20,317	138,401	1,832	160,550
Unrestricted	365,608	(47,051)	(119,872)	198,685
TOTAL NET POSITION	722,342	275,439	(26)	997,755
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 1,051,056	$ 1,704,865	$ (155,797)	$ 2,600,124

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
OPERATING REVENUES	$ 246,315	$ 148,397	$ (108,396)	$ 286,316
OPERATING EXPENSES				
Depreciation and amortization	33,614	28,342	-	61,956
Other operating expenses	158,997	75,017	(108,396)	125,618
Total operating expenses	192,611	103,359	(108,396)	187,574
NET OPERATING INCOME	53,704	45,038	-	98,742
OTHER REVENUES (EXPENSES)				
Interest and other income	7,561	5,887	(3,440)	10,008
Interest on revenue bonds and other, net of capitalized interest	(7,654)	(52,357)	3,542	(56,469)
Federal rebates on revenue bonds	-	10,545	-	10,545
Amortization of debt discount/premium	1,332	3,860	(98)	5,094
Cost of debt issuance	(167)	(28)	-	(195)
Total other revenues (expenses)	1,072	(32,093)	4	(31,017)
CONTRIBUTIONS IN AID OF CONSTRUCTION	4,603	-	-	4,603
EXTRAORDINARY LOSS - WANAPUM FRACTURE	-	9,896	-	9,896
CHANGE IN NET POSITION	59,379	22,841	4	82,224
NET POSITION				
Beginning of year	662,963	252,598	(30)	915,531
End of year	$ 722,342	$ 275,439	$ (26)	$ 997,755

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

CONDENSED SCHEDULE OF CASH FLOWS

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
Net cash provided by operating activities	$ 88,088	$ 90,604	$ 2,774	$ 181,466
Net cash provided by (used) in capital and related financing activities	12,425	(119,457)	(32,755)	(139,787)
Net cash (used in) provided by investing activities	(97,350)	62,197	29,413	(5,740)
NET INCREASE (DECREASE) IN CASH	$ 3,163	$ 33,344	$ (568)	$ 35,939
CASH AT END OF YEAR	$ 4,085	$ 39,722	$ (1,088)	$ 42,719
CASH AT BEGINNING OF YEAR	923	6,378	(521)	6,780
NET INCREASE (DECREASE) IN CASH	$ 3,162	$ 33,344	$ (567)	$ 35,939

CONDENSED STATEMENT OF NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
ASSETS				
Current assets	$ 113,854	$ 85,585	$ (12,298)	$ 187,141
Net utility plant	557,598	1,323,667	-	1,881,265
Noncurrent	244,487	231,013	(73,282)	402,218
TOTAL ASSETS	915,939	1,640,265	(85,580)	2,470,624
Deferred outflows of resources	2,288	9,234	-	11,522
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 918,227	$ 1,649,499	$ (85,580)	$ 2,482,146
LIABILITIES				
Current	$ 26,045	$ 105,171	$ (2,779)	$ 128,437
Noncurrent	226,014	1,287,098	(82,771)	1,430,341
TOTAL LIABILITIES	252,059	1,392,269	(85,550)	1,558,778
Deferred inflows of resources	3,205	4,632	-	7,837
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	255,264	1,396,901	(85,550)	1,566,615
NET POSITION				
Net investment in capital assets	362,497	167,577	83,791	613,865
Restricted	20,055	125,561	1,089	146,705
Unrestricted	280,411	(40,540)	(84,910)	154,961
TOTAL NET POSITION	662,963	252,598	(30)	915,531
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 918,227	$ 1,649,499	$ (85,580)	$ 2,482,146

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
OPERATING REVENUES	$ 262,086	$ 156,587	$ (105,504)	$ 313,169
OPERATING EXPENSES				
Depreciation and amortization	32,242	24,743	-	56,985
Other operating expenses	191,072	74,524	(105,504)	160,092
Total operating expenses	223,314	99,267	(105,504)	217,077
NET OPERATING INCOME	38,772	57,320	-	96,092
OTHER REVENUES (EXPENSES)				
Interest and other income	4,349	2,190	(1,939)	4,600
Interest on revenue bonds and other, net of capitalized interest	(6,206)	(43,283)	1,934	(47,555)
Federal rebates on revenue bonds	-	8,214	-	8,214
Amortization of debt expense, discount, and premium	1,163	3,296	(9)	4,450
Cost of debt issuance	(7)	(1,270)	-	(1,277)
Total other revenues (expenses)	(701)	(30,853)	(14)	(31,568)
CONTRIBUTIONS IN AID OF CONSTRUCTION	13,222	-	-	13,222
EXTRAORDINARY LOSS - WANAPUM FRACTURE	-	(4,359)	-	(4,359)
CHANGE IN NET POSITION	51,293	22,108	(14)	73,387
NET POSITION				
Beginning of year	611,670	230,490	(16)	842,144
End of year	$ 662,963	$ 252,598	$ (30)	$ 915,531

(Internal transactions are eliminated based on Generally Accepted Accounting Principles)

CONDENSED SCHEDULE OF CASH FLOWS

(AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
Net cash provided by operating activities	$ 45,487	$ 106,081	$ (13,392)	$ 138,176
Net cash used in capital and related financing activities	(34,923)	(46,618)	(32,559)	(114,100)
Net cash (used in) provided by investing activities	(13,308)	(55,830)	44,219	(24,919)
NET (DECREASE) INCREASE IN CASH	$ (2,744)	$ 3,633	$ (1,732)	$ (843)
CASH AT END OF YEAR	$ 923	$ 6,378	$ (521)	$ 6,780
CASH AT BEGINNING OF YEAR	3,667	2,745	1,211	7,623
NET (DECREASE) INCREASE IN CASH	$ (2,744)	$ 3,633	$ (1,732)	$ (843)

Schedule of the District's Proportionate Share of the Net Pension Liability
(AMOUNTS IN THOUSANDS)

	PERS 1		PERS 2/3	
	2016	**2015**	**2015**	**2015**
Measurement Date Ended June 30				
Proportion of the net pension liability	0.524928%	0.544648%	0.650080%	0.679264%
Proportionate share of the net pension liability	$ 28,191	$ 28,490	$ 32,731	$ 24,271
Covered-employee payroll	913	956	58,869	60,273
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	3087.73%	2980.13%	55.60%	40.27%

Schedule of the District's Contributions
(AMOUNTS IN THOUSANDS)

	PERS 1									
Fiscal Year Ended June 30	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Contractually Required Contribution	$ 102	$ 86	$ 114	$ 112	$ 163	$ 128	$ 164	$ 267	$ 211	$ 185
Contributions in Relation to the Contractually Required Contribution Subtotal	(102)	(86)	(114)	(112)	(163)	(128)	(164)	(267)	(211)	(185)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$ 913	$ 956	$ 1,277	$ 1,586	$ 2,382	$ 2,578	$ 3,398	$ 3,693	$ 3,889	$ 4,768
Contributions as a Percentage of covered Employee Payroll	11.17%	9.00%	8.93%	7.06%	6.84%	4.97%	4.83%	7.23%	5.43%	3.88%

	PERS 2/3									
Fiscal Year Ended June 30	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Contractually Required Contribution	$ 3,685	$ 3,026	$ 2,984	$ 2,756	$ 3,923	$ 3,001	$ 2,934	$ 4,200	$ 2,824	$ 1,952
Contributions in Relation to the Contractually Required Contribution Subtotal	(3,685)	(3,026)	(2,984)	(2,756)	(3,923)	(3,001)	(2,934)	(4,200)	(2,824)	(1,952)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$ 58,869	$ 60,273	$ 60,446	$ 58,703	$ 55,948	$ 58,289	$ 55,851	$ 52,138	$ 47,568	$ 45,655
Contributions as a Percentage of covered Employee Payroll	6.26%	5.02%	4.94%	4.69%	7.01%	5.15%	5.25%	8.06%	5.94%	4.28%
PERS Plan 1 UAAL*	$ 2,898	$ 2,417	$ 2,428	$ 1,383	$ -	$ -	$ -	$ -	$ -	$ -

Notes to Schedules

Grant County PUD #2 implemented GASB 68 for the year ended June 30, 2015.

*DRS allocates a certain portion of contributions from PERS Plan 2/3 to PERS Plan 1 in order to fund its unfunded actuarial accrued liability (UAAL)

Schedule of Funding Progress for Postretirement Health Benefits Program

(AMOUNTS IN THOUSANDS)

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio Ratio
12/31/2009	$ -	$ 5,182	$ 5,182	0%
12/31/2011	-	4,168	4,168	0%
12/31/2013	-	4,127	4,127	0%
12/31/2015	-	5,808	5,808	0%

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

Public Utility District No. 2
of Grant County, Washington

Re: Public Utility District No. 2 of Grant County, Washington
Electric System Revenue Refunding Bonds, Series 2017-N (Mandatory Put Bonds) – $49,865,000

Ladies and Gentlemen:

We have served 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 2017-N (Mandatory Put Bonds), in the aggregate principal amount of $49,865,000 (the "Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The Bonds are issued by the District pursuant to Resolution No. 8862 of the District's Board of Commissioners (the "Bond Resolution") to redeem the Electric System Revenue Bonds, Series 2014-K and to pay costs of issuance of the Bonds.

Reference is made to the Bonds and the Bond Resolution for the definitions of capitalized terms used and not otherwise defined herein.

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). We express no opinion relating to the undertaking by the District to provide ongoing disclosure pursuant to SEC Rule 15c2 12.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the District is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The District has covenanted in the Bond Resolution to comply with those requirements, but if the District fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the District's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchasers thereof and full payment therefor, it is our opinion that under existing law:

1. The District has the right and power under Title 54 of the Revised Code of Washington (the "Act") to adopt the Bond Resolution. The Bond Resolution has been duly and lawfully adopted by the District, is in full force and effect, is valid and binding upon the District and is enforceable in accordance with its terms.

2. The Bond Resolution creates the valid pledges under the Act which it purports to create of (i) the proceeds of the sale of the Bonds to the extent held in the funds established by the Bond Resolution, (ii) the Gross Revenue, subject to prior application to pay Operating Expenses (as such terms are defined in the Bond Resolution),

and (iii) the money and investments, if any, credited to the Revenue Fund, the Bond Fund, the Construction Fund and the Reserve and Contingency Fund, subject only to the terms and conditions set forth in the Bond Resolution.

3. The District is duly authorized and entitled to issue the Bonds, and the Bonds have been duly and validly authorized and issued by the District in accordance with the laws of the State of Washington, including the Act. The Bonds constitute the valid and binding obligations of the District as provided in the Bond Resolution, are enforceable in accordance with their terms and the terms of the Bond Resolution and are entitled to the benefits of the Act and the Bond Resolution. The Bonds are special limited obligations of the District and neither the State of Washington nor any political subdivision thereof, other than the District, is obligated to pay the principal of and interest on the Bonds, except to the extent that the enforcement of the rights and remedies of such owner of the Bonds 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.

4. Assuming compliance by the District after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to 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.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

APPENDIX D

DTC AND BOOK-ENTRY SYSTEM

The following information has been provided by the Depository Trust Company, New York, New York ("DTC"). The District makes no representation regarding the accuracy or completeness thereof. Beneficial Owners (as hereinafter defined) should therefore confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and 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 S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system, in denominations of $5,000 or any integral multiple thereof, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry entry system for the Bonds is discontinued.

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON • ELECTRIC SYSTEM REVENUE REFUNDING BONDS, SERIES 2017-N (MANDATORY PUT BONDS)

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