

Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS" herein.



\$74,975,000

**PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON
ELECTRIC SYSTEM REVENUE REFUNDING BONDS, SERIES 2020-Q (TAXABLE)**

Bonds Dated: Date of Delivery

Due: January 1, as 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 of the Bonds (the "Beneficial Owners") will not receive certificates representing their beneficial ownership interests in the Bonds.

Interest on the Bonds is payable on July 1 and January 1, commencing July 1, 2020, until maturity or prior redemption, whichever occurs first, by the Washington State fiscal agent (currently U.S. Bank National Association) (the "Registrar"). As long as DTC or its nominee is the Registered Owner of the Bonds, such payments will be made by the Registrar to DTC, which will in turn remit such principal and interest to its broker-dealer participants, which will in turn remit such payments to the Beneficial Owners of the Bonds as described in APPENDIX D—"DTC AND BOOK-ENTRY SYSTEM."

The Bonds are being issued by the District to be used, with other available funds of the District, to defease and refund certain outstanding bonds of the Electric System (as defined herein), and to pay costs of issuance of the Bonds. See "PURPOSE AND APPLICATION OF BOND PROCEEDS." The principal of and interest on the Bonds are payable solely from and secured by Gross Revenue of the Electric System and other funds pledged therefor by the Bond Resolution, subject to prior application for payment of Operating Expenses (each as defined herein). The Bonds are issued on a parity of lien on such Gross Revenue of the Electric System with the Outstanding Parity Bonds (as defined herein), currently outstanding in the principal amount of \$182,035,000 (of which \$67,625,000 will be defeased and refunded with proceeds of the Bonds and other available funds of the District) and any Future Parity Bonds. 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 superior to the lien and charge of the Bonds, but may issue Future Parity Bonds and Parity Lien Obligations on a parity of lien with the Outstanding Parity Bonds and the Bonds subject to certain conditions. See "SECURITY FOR THE PARITY BONDS."

Maturity Table Located on Inside Cover

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

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

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

The Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of legality by Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, and certain other conditions. A form of the proposed opinion of Bond Counsel is attached as Appendix C. Certain legal matters will be passed upon for the District by Nixon Peabody LLP, Washington, D.C., Special Tax Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, P.C., Seattle, Washington. The Bonds are expected to be delivered on or about January 29, 2020, through the facilities of DTC in New York, New York, by Fast Automated Securities Transfer.

KeyBanc Capital Markets Inc.

J.P. Morgan

Citigroup

RBC Capital Markets

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

\$74,975,000

ELECTRIC SYSTEM REVENUE REFUNDING BONDS, SERIES 2020-Q (TAXABLE)

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

Maturity (January 1)	Amount	Interest Rate	Yield	Price	CUSIP No.*
2021	\$ 990,000	1.731%	1.731%	100.000	387874YC8
2022	805,000	1.831	1.831	100.000	387874YD6
2023	820,000	1.877	1.877	100.000	387874YE4
2024	3,240,000	1.913	1.913	100.000	387874YF1
2025	3,300,000	1.963	1.963	100.000	387874YG9
2026	3,365,000	2.181	2.181	100.000	387874YH7
2027	3,440,000	2.281	2.281	100.000	387874YJ3
2028	3,515,000	2.420	2.420	100.000	387874YK0
2029	3,600,000	2.470	2.470	100.000	387874YL8
2030	3,690,000	2.520	2.520	100.000	387874YM6
2031	3,785,000	2.620	2.620	100.000	387874YN4
2032	3,880,000	2.720	2.720	100.000	387874YP9
2033	3,990,000	2.820	2.820	100.000	387874YQ7
2034	4,100,000	2.850	2.850	100.000	387874YR5
2035	4,215,000	2.870	2.870	100.000	387874YS3

\$13,440,000 3.246% Term Bond due January 1, 2038, initial reoffering yield of 3.246%; CUSIP No. 387874YT1*

\$14,800,000 3.336% Term Bond due January 1, 2041, initial reoffering yield of 3.336%; CUSIP No. 387874YU8*

* 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 Underwriters take any responsibility for the accuracy of the CUSIP numbers.

No dealer, broker, salesperson or any other person has been authorized by the District or the Underwriters 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 Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

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

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

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

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

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

Commissioners

Tom Flint President
Larry Schaapman Vice President
Judy Wilson Secretary
Nelson Cox Commissioner
Dale Walker Commissioner

Senior Management

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Mitch Delabarre General Counsel
Jeff Bishop Chief Financial Officer
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Richard Wallen Chief Operations Officer
Bonnie Overfield Senior Manager of Treasury
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Municipal Advisor

PFM Financial Advisors LLC
Los Angeles, California

Registrar

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

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

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PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

OFFICIAL STATEMENT

RELATING TO

\$74,975,000

ELECTRIC SYSTEM REVENUE REFUNDING BONDS, SERIES 2020-Q (TAXABLE)

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, inside cover page and appendices, is to set forth information concerning Public Utility District No. 2 of Grant County, Washington (the “District”), the District’s electric transmission, distribution and telecommunications system (as more specifically defined in the hereinafter defined Bond Resolution, the “Electric System”), the District’s Priest Rapids Hydroelectric Project (as more specifically defined in the Bond Resolution, the “Priest Rapids Project”), which consists of the Priest Rapids Development and the Wanapum Development, and the District’s \$74,975,000 principal amount of Electric System Revenue Refunding Bonds, Series 2020-Q (Taxable) (the “Bonds”).

The Bonds are to be issued pursuant to Title 54 of the Revised Code of Washington (“RCW”) (the “Enabling Act”) and chapters 39.46 and 39.53 RCW. The Bonds are authorized by Resolution No. 8933 of the District, adopted by the Board of Commissioners (the “Commission”) of the District on December 10, 2019 (the “Bond Resolution”). Certain capitalized words and phrases used in this Official Statement are defined in the Bond Resolution, a copy of which is attached hereto as Appendix A.

Proceeds of the Bonds will be used, together with other available funds of the District, to defease and refund a portion of the District’s outstanding Electric System obligations, and to pay costs of issuance of the Bonds. See “PURPOSE AND APPLICATION OF BOND PROCEEDS.” The District has outstanding the following Electric System obligations:

- Electric System Revenue Refunding Bonds, Series 2013-J (the “2013-J Bonds”), in the aggregate principal amount of \$67,625,000, all of which will be defeased and refunded with proceeds of the Bonds and other available funds of the District,
- Electric System Revenue Refunding Bonds, Series 2017-N (Mandatory Put Bonds) (the “2017-N Bonds”), in the principal amount of \$49,865,000, and
- Electric System Revenue Refunding Bonds, Series 2017-O (the “2017-O Bonds”), in the aggregate principal amount of \$64,545,000.

The 2013-J Bonds, the 2017-N Bonds and the 2017-O Bonds are referred to herein as the “Outstanding Parity Bonds.” In accordance with the resolutions authorizing the Outstanding Parity Bonds, the Bonds are issued on a parity of lien with the Outstanding Parity Bonds. The District has reserved the right in the Bond Resolution to issue additional bonds (“Future Parity Bonds”) and certain Parity Lien Obligations on a parity of lien with the Bonds and the Outstanding Parity Bonds. The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are referred to herein as the “Parity Bonds.” See “SECURITY FOR THE PARITY BONDS—Additional Bonds” and “DEBT SERVICE REQUIREMENTS.”

In addition, the District has outstanding the following subordinate lien obligations of the Electric System, which have a lien on Gross Revenue subordinate to the lien thereon of the Parity Bonds:

- Electric System Revenue Bond, Series 2017-M (the “2017-M Bond”), in the principal amount of \$50,000,000, and

- Electric System Revenue Refunding Bond, Series 2019-P (the “2019-P Bond”), in the principal amount of \$50,000,000.

The 2017-M Bond, the 2019-P Bond and any subordinate lien bonds issued on a parity of lien with such bonds are referred to herein as the “Electric System Subordinate Bonds.” The District has reserved the right to issue additional indebtedness secured by a lien on Gross Revenue of the Electric System that is subordinate to the lien thereon of the Parity Bonds. See “DEBT SERVICE REQUIREMENTS—Subordinate Lien Debt.”

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

The District currently has Priest Rapids Project bonds outstanding in the aggregate principal amount of \$956,780,000 (the “Outstanding Priest Rapids Project Bonds”). The District has reserved the right in the Priest Rapids Project bond resolutions to issue additional bonds on a parity of lien on Priest Rapids Project revenues with the Outstanding Priest Rapids Project Bonds (the “Future Priest Rapids Project Bonds”). The Outstanding Priest Rapids Project Bonds and any Future Priest Rapids Project Bonds are referred to herein as the “Priest Rapids Project Bonds.” The District also has outstanding subordinate lien revenue bonds of the Priest Rapids Project in the aggregate principal amount of \$321,260,000 (together with any additional subordinate lien obligations, the “Priest Rapids Project Subordinate Bonds”), which have been purchased by the District’s Electric System as an investment and are payable from and secured by a lien on revenue of the Priest Rapids Project subordinate to the payment of the Priest Rapids Project Bonds. The District has reserved the right to issue additional Priest Rapids Project Subordinate Bonds in the future.

Simultaneously with the issuance of the Bonds, the District expects to issue its Priest Rapids Hydroelectric Project Revenue Refunding Bonds, 2020 Series Z (Taxable), in the aggregate principal amount of \$127,115,000 as Future Priest Rapids Project Bonds (the “2020 Priest Rapids Project Bonds”) to provide the funds necessary to be used with other available funds of the District to defease and refund a portion of the Outstanding Priest Rapids Project Bonds and to pay costs of issuance of the 2020 Priest Rapids Project Bonds. See “DEBT SERVICE REQUIREMENTS” and “THE PRIEST RAPIDS PROJECT.” The 2020 Priest Rapids Project Bonds are not being offered for sale by this Official Statement, and this Official Statement should not be relied on by investors when making an investment decision to purchase such bonds.

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

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

PURPOSE AND APPLICATION OF BOND PROCEEDS

Purpose of the Bonds

Proceeds of the Bonds will be used, together with other available funds of the District, to defease and refund a portion of the District’s Outstanding Parity Bonds and to pay costs of issuance of the Bonds as described below under “Refunding Plan.”

Application of the Bond Proceeds

The proceeds of the Bonds and other available funds of the District will be applied as follows:

**TABLE 1
SOURCES AND USES OF FUNDS⁽¹⁾**

Sources of Funds			
Principal Amount of the Bonds		\$	74,975,000
2013-J Reserve Fund Contribution			6,327,038
Total Sources of Funds		\$	81,302,038
Uses of Funds			
Deposit to Refunding Account		\$	75,492,347
Deposit to 2020 Reserve Fund			5,270,620
Issuance Costs ⁽²⁾			539,071
Total Uses of Funds		\$	81,302,038

⁽¹⁾ Amounts are rounded.

⁽²⁾ Includes underwriters' discount, bond counsel fees, Municipal Advisor fees, paying agent and registrar fees, rating fees, legal fees, Escrow Agent fees, verification agent fees, costs of posting and printing this Official Statement and additional proceeds.

Refunding Plan

The following Outstanding Parity Bonds (the "Refunded Bonds") will be defeased to their redemption date with a portion of the proceeds of the Bonds and other available funds of the District.

**TABLE 2
REFUNDED BONDS**

Series	Maturity Date (January 1)	Par Amount	Interest Rate	Maturity or Redemption Date	Redemption Price	CUSIP Numbers
<i>2013-J Bonds</i>	2024	\$ 2,405,000	5.00%	7/1/2023	100%	387874WR7
	2025	2,525,000	5.00	7/1/2023	100	387874WS5
	2026	2,650,000	5.00	7/1/2023	100	387874WT3
	2027	2,785,000	5.00	7/1/2023	100	387874WU0
	2028	2,920,000	5.00	7/1/2023	100	387874WV8
	2029	3,070,000	5.00	7/1/2023	100	387874WW6
	2030	3,220,000	5.00	7/1/2023	100	387874WX4
	2031	3,385,000	5.00	7/1/2023	100	387874WY2
	2032	3,550,000	5.00	7/1/2023	100	387874WZ9
	2033	3,730,000	5.00	7/1/2023	100	387874XA3
	2038*	21,635,000	5.00	7/1/2023	100	387874XB1
	2041*	15,750,000	5.00	7/1/2023	100	387874XC9
			\$ 67,625,000			

* Term bonds.

A portion of the net proceeds from the sale of the Bonds, together with available funds of the District, will be deposited in the Refunding Account (the "Refunding Account") and used to purchase Acquired Obligations (as defined below) to be held by U.S. Bank National Association (the "Escrow Agent") under an escrow agreement (the "Escrow Agreement"), dated the date of delivery of the Bonds, between the District and the Escrow Agent. Funds will be irrevocably deposited in the Refunding Account and will be used to purchase direct, non-callable obligations of the

United States of America (the “Acquired Obligations”). The Acquired Obligations will mature at such times and pay interest in such amounts so that, with other available funds held by the Escrow Agent under the Escrow Agreement, sufficient money will be available to pay the interest on the Refunded Bonds coming due on and prior to their respective maturity or redemption dates and to redeem and retire the Refunded Bonds on the respective dates set forth above. Since all payments of principal of and interest on the Refunded Bonds will thereafter be provided for from money and securities on deposit with the Escrow Agent under the Escrow Agreement, the liens, pledges and covenants securing the Refunded Bonds will terminate and be discharged and released.

On the date of delivery of the Bonds, the District expects to receive a report from Samuel Klein and Company, Certified Public Accountants (the “Verification Agent”), verifying that the funds deposited and held in the Refunding Account, together with the maturing principal amounts of and interest earned on the Acquired Obligations, will be sufficient to pay on the maturity dates or the dates fixed for redemption, the principal amounts of the Refunded Bonds and accrued interest thereon.

The report of the Verification Agent will include the statement that the scope of its engagement was limited to verifying the mathematical accuracy of the computations contained in the schedules provided to it and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of its report.

DESCRIPTION OF THE BONDS

General Terms

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

The Bonds will bear interest from their date at the rates set forth on the inside cover of this Official Statement. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months, and will be payable commencing July 1, 2020, and semiannually thereafter on each January 1 and July 1 to the respective dates of maturity or prior redemption of the Bonds, whichever comes first.

The District has adopted the system of registration for the Bonds approved, from time to time, by the State Finance Committee (the “Committee”). Pursuant to chapter 43.80 RCW, the Committee designates one or more fiscal agents for bonds issued within the State. The State’s fiscal agent, currently U.S. Bank National Association (the “Registrar”), will authenticate the Bonds and act as the paying agent and registrar for the purpose of paying the principal of and interest on the Bonds, recording the purchase and registration, exchange or transfer, and payment of Bonds and performing the other respective obligations of the paying agent and registrar. No resignation or removal of the Registrar will become effective until a successor has been appointed by the District and has accepted the duties of Registrar.

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

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

Termination of Book-Entry Transfer System

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

Transfer and Exchange

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

Redemption

Optional Redemption. The District reserves the right and option to redeem the Bonds maturing on or after January 1, 2031, prior to their stated maturity dates at any time on or after January 1, 2030, as a whole or in part (within one or more maturities selected by the District), at par plus accrued interest to the date fixed for redemption.

Make-Whole Optional Redemption of the Bonds Prior to January 1, 2030. Prior to January 1, 2030, when the Bonds are callable at par as described in the paragraph above, the Bonds are subject to redemption prior to their respective maturities at the option of the District, in whole or in part, on any Business Day, at the Make-Whole Redemption Price for the Bonds (defined below) determined by the Designated Investment Banker (defined below). The “Make-Whole Redemption Price” for the Bonds is the greater of (i) the issue price as shown on the inside cover page of this Official Statement (but not less than 100% of the principal amount of the Bonds to be redeemed), or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Bonds to be redeemed (taking into account any mandatory sinking fund redemptions on a pro rata basis), not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which such Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (defined below) plus 5 basis points for the Bonds maturing in the years 2021 through 2026, 10 basis points for the Bonds maturing in the years 2027 through 2032, and 15 basis points for the Bonds maturing in the years 2033 through 2041, plus accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the Designated Investment Banker (defined below).

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Bond, the U.S. Treasury security or securities selected by the Designated Investment Banker with an actual or interpolated maturity comparable to the remaining average life of the Bonds to be redeemed and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of such Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Bond, (i) if the Designated Investment Banker receives at least five Reference Treasury Dealer Quotations (defined below), the average of such quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than five Reference Treasury Dealer Quotations, the average of all such quotations.

“Designated Investment Banker” means one of the Reference Treasury Dealers appointed by the District.

“Reference Treasury Dealer” means each of five firms, specified by the District from time to time, that are primary U.S. Government securities dealers in the City of New York (each, a “Primary Treasury Dealer”); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the District will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the District by such Reference Treasury Dealer at 3:30 p.m. (New York City time) on a date that is no earlier than four days prior to the date the redemption notice is mailed.

Mandatory Redemption. The Bonds maturing on January 1, 2038 and January 1, 2041 (which are Term Bonds), will 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.

2038 Term Bonds

Year	Sinking Fund Installment
2036	\$ 4,335,000
2037	4,480,000
2038*	4,625,000

* Maturity.

2041 Term Bonds

Year	Sinking Fund Installment
2039	\$ 4,770,000
2040	4,930,000
2041*	5,100,000

* Maturity.

To the extent the District redeems (other than in satisfaction of the mandatory sinking fund requirements) or purchases for cancellation any Term Bonds that are subject to mandatory redemption, the District may reduce the mandatory sinking fund requirements of such Term Bonds of the same maturity, in like aggregate principal amount for the year specified by the District. The selection of particular Bonds within a maturity to be redeemed will be made in accordance with the operational arrangements then in effect at DTC on a pro rata pass-through distribution of principal basis.

Partial Redemption

If less than all of a maturity of the Bonds is to be redeemed, the Registrar will select the Bonds to be redeemed, from the outstanding Bonds of such maturity not previously called for redemption, on a *pro rata* basis, which will be

calculated based on the following formula: (principal of the Bonds of a maturity to be redeemed) x (principal amount of Bonds of such maturity owned by an owner) / (total principal amount of Bonds of such maturity outstanding immediately prior to the date of redemption). The result of such calculation will be rounded down to the next lower integral multiple of \$1,000; provided, that the portion of any Bonds to be redeemed shall be in authorized denominations and all Bonds of a maturity remaining outstanding following such redemption shall be in authorized denominations.

Notwithstanding the procedures for partial redemption described in the previous paragraph, if the Bonds are registered in book-entry-only form and so long as DTC or a successor securities depository is the sole registered owner of the Bonds, partial redemptions will be done in accordance with DTC procedures. It is the District's intent that redemption allocations made by DTC be made in accordance with these same proportional provisions. However, the District can provide no assurance that DTC will allocate redemptions among beneficial owners on such a proportional basis.

Notice of Redemption; Conditional Redemption

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

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

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

Open Market Purchases

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

Defeasance of the Bonds

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

right to receive the funds so set aside and pledged, and such Bonds shall no longer be deemed to be outstanding under the Bond Resolution or under any resolution authorizing the issuance of bonds or other indebtedness of the District.

Defeasance of any Bond may result in a reissuance thereof, in which event a holder will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the Bond. See "TAX MATTERS."

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

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DEBT SERVICE REQUIREMENTS

Outstanding Long-Term Debt of the District

The table below lists the outstanding long term debt of the District for the Electric System and the Priest Rapids Project, including the Refunded Bonds and excluding the Bonds and the 2020 Priest Rapids Project Bonds expected to be issued simultaneously with the Bonds.

**TABLE 3
SUMMARY OF OUTSTANDING LONG TERM DEBT OF THE DISTRICT⁽¹⁾**

System ⁽²⁾	Series	Date of Final Maturity	Original Principal Amount (\$000)	Outstanding Principal Amount (\$000) ⁽³⁾
Electric System	2013-J ⁽⁴⁾	1/1/2041	\$ 67,625	\$ 67,625
	2017-N	1/1/2044 ⁽⁵⁾	49,865	49,865
	2017-O	1/1/2047	64,545	64,545
			\$ 182,035	\$ 182,035
Electric System Subordinate Bonds	2017-M	9/18/2020	\$ 50,000	\$ 50,000
	2019-P	7/1/2021	50,000	50,000
			\$ 100,000	\$ 100,000
Priest Rapids Development Bonds	2003-Z	1/1/2021	\$ 18,450	\$ 1,715
	2005-Z	1/1/2033	43,685	20,085
	2006-Z	1/1/2036	36,370	26,395
			\$ 98,505	\$ 48,195
Wanapum Development Bonds	2003-Z	1/1/2021	\$ 20,135	\$ 1,870
	2006-Z	1/1/2043	96,845	78,350
			\$ 116,980	\$ 80,220
Priest Rapids Project Bonds	2010-A ⁽⁶⁾	1/1/2023	\$ 40,265	\$ 6,265
	2010-L	1/1/2040	173,915	164,495
	2010-M	1/1/2027	90,000	90,000
	2010-Z	1/1/2040	34,585	30,880
	2012-A ⁽⁶⁾	1/1/2035	54,510	30,840
	2012-B	1/1/2023	16,235	5,460
	2012-M	1/1/2032	42,395	42,395
	2012-Z	1/1/2035	14,480	10,665
	2013-A ⁽⁶⁾	1/1/2043	69,690	69,690
	2013-Z ⁽⁶⁾	1/1/2043	30,380	26,615
	2014-A	1/1/2044	150,725	129,145
	2014-B ⁽⁶⁾	1/1/2038	53,440	46,150
	2015-A	1/1/2043	73,310	65,225
	2015-B ⁽⁶⁾	1/1/2033	17,410	14,055
	2015-M	1/1/2040	90,000	90,000
2017-B	1/1/2031	7,905	6,485	
			\$ 959,245	\$ 828,365
Priest Rapids Project Sub. Bonds ⁽⁷⁾	2014	1/1/2044	\$ 45,500	\$ 40,170
	2015	1/1/2045	27,040	27,040
	2015B	1/1/2045	7,625	7,625
	2016	1/1/2047	30,860	29,380
	2017	1/1/2047	25,935	24,810
	2017B	1/1/2048	86,300	83,560
	2019	1/1/2049	110,000	108,675
			\$ 333,260	\$ 321,260
Total			\$ 1,790,025	\$ 1,560,075

Footnotes to Table are on the following page.

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- (1) Table excludes the Bonds and the 2020 Priest Rapids Bonds. Table includes the Refunded Bonds and the Outstanding Priest Rapids Bonds expected to be refunded with proceeds of the 2020 Priest Rapids Project Bonds.
 - (2) 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.
 - (3) Outstanding amounts exclude principal payments made on January 1, 2020.
 - (4) The Refunded Bonds.
 - (5) The 2017-N Bonds were issued as mandatory put bonds bearing interest at a fixed term interest rate of 2.0% for the initial term rate period ending on December 1, 2020, subject to prior optional redemption or conversion to a new interest rate mode. The 2017-N Bonds are subject to mandatory tender on December 2, 2020 (the business day following the end of the initial term period) and on such date will be subject to mandatory purchase and conversion to a new term interest rate or to another interest rate mode as described in the resolution authorizing the issuance of such bonds. No credit facility secures the payment of the purchase price of the 2017-N Bonds on such date. If there are insufficient funds to pay the purchase price on such date or the District rescinds its election to effect a conversion of such bonds, owners of such 2017-N Bonds will retain their bonds, and the outstanding bonds will be in a delayed remarketing period and will bear interest at a stepped interest rate equal to 6.0% per annum for 90 days, then 8.0% per annum thereafter.
 - (6) To be refunded, in whole, with proceeds of the 2020 Priest Rapids Project Bonds and other available funds of the District.
 - (7) These Priest Rapids Project Subordinate Bonds were purchased by the District's Electric System as an investment.

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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 (excluding the Refunded Bonds) are shown in the following table. The District's debt service requirements for the Outstanding Priest Rapids Project Bonds are shown in Table 24. Amounts in the table have been rounded.

**TABLE 4
ELECTRIC SYSTEM PARITY BOND DEBT SERVICE REQUIREMENTS⁽¹⁾**

Year ⁽¹⁾	Outstanding Parity Bonds Debt Service ⁽²⁾⁽³⁾	The Bonds		Total Debt Service ⁽⁴⁾
		Principal	Interest	
2020	\$ 5,915,175	--	\$ 877,330	\$ 6,792,505
2021	4,224,550	\$ 990,000	2,069,320	7,283,870
2022	9,465,175	805,000	2,053,381	12,323,556
2023	7,178,175	820,000	2,038,316	10,036,491
2024	5,014,175	3,240,000	1,999,630	10,253,805
2025	5,014,800	3,300,000	1,936,249	10,251,049
2026	5,012,175	3,365,000	1,867,165	10,244,340
2027	5,011,175	3,440,000	1,791,236	10,242,411
2028	5,006,675	3,515,000	1,709,471	10,231,146
2029	5,008,425	3,600,000	1,622,480	10,230,905
2030	5,006,175	3,690,000	1,531,526	10,227,701
2031	4,999,925	3,785,000	1,435,448	10,220,373
2032	4,999,425	3,880,000	1,333,097	10,212,522
2033	4,999,300	3,990,000	1,224,070	10,213,370
2034	4,994,425	4,100,000	1,109,386	10,203,811
2035	9,504,000	4,215,000	990,476	14,709,476
2036	9,496,875	4,335,000	859,633	14,691,508
2037	9,492,525	4,480,000	716,566	14,689,091
2038	9,485,575	4,625,000	568,792	14,679,367
2039	9,485,600	4,770,000	414,164	14,669,764
2040	9,482,250	4,930,000	252,368	14,664,618
2041	9,470,325	5,100,000	85,068	14,655,393
2042	9,469,400	--	--	9,469,400
2043	9,464,000	--	--	9,464,000
2044	9,463,700	--	--	9,463,700
2045	3,958,625	--	--	3,958,625
2046	3,954,500	--	--	3,954,500
2047	3,951,375	--	--	3,951,375
Total ⁽⁴⁾	\$ 188,528,500	\$ 74,975,000	\$ 28,485,173	\$ 291,988,673

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

⁽²⁾ Table excludes the Refunded Bonds and the Electric System Subordinate Bonds.

⁽³⁾ Assumes a fixed interest rate of 2.0% until final maturity for the 2017-N Bonds. See Table 3.

⁽⁴⁾ Totals may not add due to rounding.

Future District Borrowings

The District does not expect to issue additional revenue bonds payable from the Electric System in the next two years. If market conditions allow for the refunding of higher rate Outstanding Parity Bonds for savings, the District will consider such refunding.

Simultaneously with the issuance of the Bonds, the District expects to issue its 2020 Priest Rapids Project Bonds in the aggregate principal amount of \$127,115,000, proceeds of which will be used, together with other available funds of the District, to defease and refund certain Outstanding Priest Rapids Project Bonds for overall debt service savings. See “THE PRIEST RAPIDS PROJECT—Debt Service Requirements for the Priest Rapids Project.”

Subordinate Lien Obligations

The District has certain outstanding Electric System Subordinate Bonds, and has reserved the right to issue additional subordinate lien obligations in the future. The resolutions authorizing the Electric System Subordinate Bonds bar acceleration as a remedy for an event of default and establish a coverage requirement of at least 1.10 times annual debt service on the Electric System Subordinate Bonds. See Table 3 for a summary of the District’s outstanding Electric System Subordinate Bonds. The 2017-M Bond noted in Table 3 above includes a three-year term-out option upon an event of default under certain circumstances.

SECURITY FOR THE PARITY BONDS

Pledge of Revenues

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

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

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

“Operating Expenses” are defined in the Bond Resolution to mean the District’s expenses for operation and maintenance of the Electric System and 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 do not include any costs or expenses for new construction, interest, amortization, any allowance for depreciation and District Payments.

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

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

Limited Obligations

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

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

Flow of Funds Under the Bond Resolution

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

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

- (1) to pay Operating Expenses and Resource Obligations (to the extent payable as Operating Expenses);
- (2) to make all payments required to be made into the Bond Fund for the payment of accrued interest on Parity Bonds on the next interest payment date and to make any District Payments;
- (3) to make all payments required to be made into the Bond Fund for the payment of the principal amount of Serial Bonds next coming due, and for the optional or mandatory redemption of Term Bonds;
- (4) to make all payments required to be made into the Reserve Funds, or to meet a reimbursement obligation with respect to any Qualified Insurance or Qualified Letter of Credit or other credit enhancement device, if so required by resolution of the Commission; and
- (5) to make all payments required to be made into any special fund or account created to pay or secure the payment of the principal of and interest on any Electric System Subordinate Bonds and any other revenue bonds, warrants or other revenue obligations of the District having a lien upon Gross Revenue and money in the Revenue Fund and Bond Fund and accounts therein junior and inferior to the lien thereon for the payment of the principal of and interest on the Bonds.

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

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

Rate Covenant

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

The balance in the Rate Stabilization Account was approximately \$109.6 million as of December 1, 2019. See Section 5.4 of the Bond Resolution in Appendix A for information on the Rate Stabilization Account. See “Reserve and Contingency Fund” below.

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

Reserve and Contingency Fund

The District has established the R&C Fund for the 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 Outstanding Parity Bonds and the Bonds to the extent, if any, of money in the fund. The Rate Stabilization Account is an account within the R&C Fund.

There was approximately \$18.0 million in the R&C Fund as of December 1, 2019 (excluding amounts held in the Rate Stabilization Account portion of the R&C Fund, see “Rate Covenant” above). Simultaneously with the issuance of the Bonds, the District intends to contribute a portion of the available funds in the R&C Fund to defease a portion of its outstanding debt. Continued maintenance of the R&C Fund is within the discretion of the Commission.

Additional Bonds

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

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

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

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

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

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

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

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

- (1) No Event of Default with respect to any Parity Bonds or Resource Obligations has occurred and is continuing;
- (2) There must have been filed a certificate of a Professional Utility Consultant stating that the additional source of power and energy or conservation from such Resource Obligation is consistent with sound utility power supply planning;

- (3) There must have been filed a report of the Professional Utility Consultant stating that estimated annual Net Revenue for the second full fiscal year after the date of initial operation of the facilities, costs of which are to be financed as a Resource Obligation, or after the date of first delivery of energy, capacity, reserves or services pursuant to a contract, costs of which are declared to be a Resource Obligation, as the case may be, is at least equal to 125% of maximum Annual Debt Service in any future fiscal year;
- (4) In the event that the Resource Obligation is a contract to purchase energy, capacity, reserves or services, there must have been filed opinions of counsel to all other parties to the contract which opinions state that each such party to such contract has all requisite right, power and authority to execute and deliver such contract and to perform its obligations thereunder and that such contract constitutes a legally valid and binding obligation of such party thereto; and
- (5) The Resource Obligations must not be subject to acceleration if an event of default has occurred.

Electric System Obligations for the Priest Rapids Project Bonds

The District's Outstanding Priest Rapids Project Bonds are currently outstanding in the aggregate principal amount of \$956,780,000. Simultaneously with the issuance of the Bonds, the District expects to issue its 2020 Priest Rapids Project Bonds and to use the proceeds of such bonds, together with other available funds of the District, to defease and refund \$193,615,000 of the Outstanding Priest Rapids Project Bonds. The District has reserved the right to issue Future Priest Rapids Project Bonds on a parity of lien with the Outstanding Priest Rapids Project Bonds. The Priest Rapids Project Subordinate Bonds of the District are currently outstanding in the aggregate principal amount of \$321,260,000, which have been purchased by the Electric System as an investment. The District has reserved the right to additional subordinate Priest Rapids Project bonds in the future.

The District has covenanted (1) to pay to the Priest Rapids Project from the Electric System that portion of the annual costs of the Priest Rapids Project for each Fiscal Year, including without limitation for operating 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 subordinate in rank to all other obligations of the Electric System. See "THE PRIEST RAPIDS PROJECT."

Reserve Fund

2020 Reserve Fund

In connection with the issuance of the Bonds, the District will establish a new reserve fund for the Bonds (the "2020 Reserve Fund"). The 2020 Reserve Fund Requirement means with respect to the Bonds and any Future Parity Bonds secured by the 2020 Reserve Fund an amount equal to \$5,270,620, which is 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 such reserve fund. The District will deposit available District funds to meet the 2020 Reserve Fund Requirement.

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 an existing reserve fund or another 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, which may be zero, for any 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 Appendix A.

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.

2017-O Reserve Fund

As provided in Resolution No. 8866, the resolution authorizing the issuance of the 2017-O Bonds, the reserve fund requirement with respect to the 2017-O Bonds and any Future Parity Bonds secured by the 2017-O Reserve Fund (the “2017-O Reserve Fund Requirement”) was an amount equal to the least of (A) 125% of average Annual Debt Service, (B) maximum Annual Debt Service or (C) 10% of the initial principal amount of the 2017-O Bonds or any Future Parity Bonds secured by such reserve fund. Such 2017-O Reserve Fund Requirement may be recalculated and determined from time to time. The 2017-O Reserve Fund is held by the District. As of December 23, 2019, the 2017-O Reserve Fund had a balance of approximately \$5.4 million. The 2017-O Reserve Fund is not available to pay the Bonds.

2017-N Reserve Fund

As provided in Resolution No. 8862, the resolution authorizing the issuance of the 2017-N Bonds, the initial reserve fund requirement with respect to the 2017-N Bonds and any Future Parity Bonds secured by the 2017-N Reserve Fund is zero. The 2017-N Reserve Fund is not available to pay the Bonds.

2013-J Reserve Fund

As provided in Resolution No. 8682, the resolution authorizing the issuance of the 2013-J Bonds, the reserve fund requirement with respect to the 2013-J Bonds and any Future Parity Bonds secured by the 2013-J Reserve Fund (the “2013-J 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-J Bonds, the 2013-J Reserve Fund Requirement did not exceed 10% of the initial principal amount of the 2013-J Bonds. Such 2013-J Reserve Fund Requirement may be recalculated and determined from time to time. The 2013-J Reserve Fund is held by the District. As of December 23, 2019, the 2013-J Reserve Fund had a balance of approximately \$6.3 million, all of which will be contributed to the refunding of the Refunded Bonds and to satisfy the 2020 Reserve Account Requirement.

Resource Obligations; Take or Pay Contracts

Upon compliance with certain requirements in the Bond Resolution, the District may (1) enter into contracts for the purchase of energy, capacity, capability, reserves, conservation or services or (2) construct or acquire as a separate system, facilities or resources for the generation of power and energy or for the conservation, transformation, transmission or distribution of power and energy and may declare costs associated with such contract or separate system (including debt service on bonds) to be a resource obligation (“Resource Obligation”) of the Electric System to be paid as an Operating Expense of the Electric System for any month in which power and energy or other goods and services from such resource were made available to the Electric System during such month (regardless of whether or not the Electric System actually scheduled or received energy from such resource during such month). At all other

times a Resource Obligation is an indebtedness of the Electric System payable from Gross Revenue on a parity of lien with the Bonds. The District has not entered into Resource Obligations. The District's share of the Priest Rapids Project is not a Resource Obligation, but the District's costs associated with the Priest Rapids Project are Operating Expenses as long as power or energy is provided or capable of being provided.

The District has covenanted in the Bond Resolution not to enter into any agreement which obligates the District to pay from Gross Revenue for (a) generating or transmission capacity or 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 subordinate to the obligation of the District to make payments from the Revenue Fund into the Bond Fund. This restriction does not apply to Resource Obligations or any agreement relating to the Priest Rapids Project or to any other hydroelectric facility owned and operated by the District.

Other Covenants; Other Terms of the Bond Resolution

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

The Bond Resolution defines certain Events of Default with respect to the Bonds, including but not limited to, failure to make bond payments punctually, failure to observe or perform any of the covenants included in the Bond Resolution, and actions related to bankruptcy or insolvency. The Bond Resolution provides for the opportunity to cure certain defaults and the appointment of a trustee (a "Bondowners' Trustee") to take such steps and institute such suits, actions or other proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the owners of Parity Bonds. The Bond Resolution also sets forth provisions related to amending the Bond Resolution, with and without the consent of owners of Parity Bonds, and other terms important to the Bonds. See Appendix A.

Derivative Products

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

No Acceleration Upon Default

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

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

THE DISTRICT

General

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

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

The District’s electric utility properties and operations consist of two operating systems, each of which is accounted for and financed separately. The systems are the Electric System and the Priest Rapids Project, which consists of the Priest Rapids Development and the Wanapum Development. The present combined total nameplate generating capacity of the Priest Rapids Project is approximately 2,157 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.

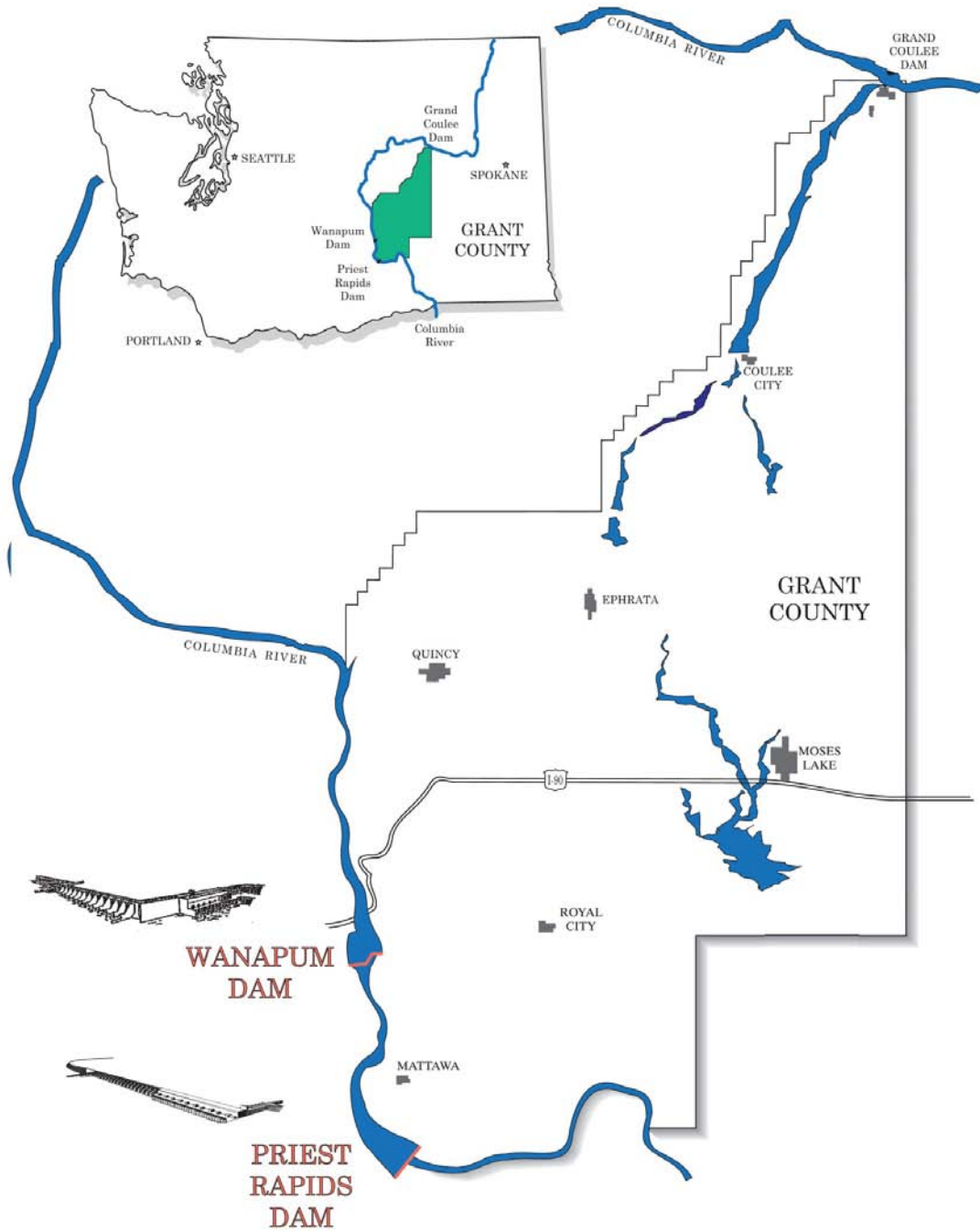
Under Washington law, public utility districts (such as the District) are authorized to provide retail electrical service beyond their boundaries. Further, investor-owned utilities are not prohibited from providing retail electrical service beyond their current service area.

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

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PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

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.

**TABLE 5
BOARD OF COMMISSIONERS**

<u>Name</u>	<u>Title</u>	<u>Expiration of Term of Office (12/31)</u>
Thomas Flint	President	2020
Larry Schaapman	Vice President	2020
Judy Wilson	Secretary	2024
Nelson Cox	Commissioner	2022
Dale Walker	Commissioner	2022

Thomas Flint, President, joined the Commission in 2001. He is a fifth generation farmer actively farming in the County. Commissioner Flint serves as a director on the Blacksands Irrigation District. He is a past president of the Washington Public Utility Districts Association. Commissioner Flint is a graduate of Central Washington University and holds a degree in industrial technology..

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

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

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

Dale Walker, Commissioner, joined the Commission in 2011. He is a 57-year resident of the 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 the County. Mr. Delabarre holds a Bachelor of Science degree from San Diego State University and obtained his law degree from Willamette University College of Law.

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.

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

Bonnie Overfield, Senior Manager of Treasury, has been with the District since 2004. She manages the treasury operating unit which includes oversight of the debt and cash/investment portfolios. During her tenure at the District she has also managed other areas of finance including financial planning/budget, rates, risk, and accounting. Ms. Overfield holds a Bachelor of Arts degree from Eastern Washington University and a Master of Business Administration degree.

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

Accounting and Financial Statements

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

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

The District's financial statements are audited by an independent accounting firm. The District's financial statements for fiscal year ending December 31, 2018 have been audited by Moss Adams LLP, independent public accountants. The District's financial statements for fiscal year ending December 31, 2017 have been audited by PricewaterhouseCoopers, LLP, the District's prior auditor. The District's audited financial statements for such years, including the audit letter for fiscal year 2018, have been included in its 2018 Annual Report (the "Report"). The audited financial statements set forth in Appendix B have been extracted from such Report for inclusion in this Official Statement. See "INDEPENDENT AUDITORS" and Appendix B.

The audited financial statements of the District are public documents. The District has not requested that Moss Adams LLP provide consent for inclusion of its audited financial statements in this Official Statement, and Moss Adams has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on

the financial statements addressed in that report. Further, Moss Adams LLP has not performed any procedures relating to this Official Statement or participated in any way in the preparation or review of this Official Statement.

District Employees

As of December 1, 2019, the District had 624 full-time regular employees and 49 part-time and temporary employees. In addition to its regular staff, the District employs a number of employees by contract for transmission and distribution line construction work, pole-testing and tree-trimming, turbine and generator rehabilitation, and environmental and other projects.

Of the 624 regular employees, as of December 1, 2019, 50% 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. A contract extension covering the period April 1, 2020 to March 31, 2023 was approved by the Commission on December 10, 2019. There has not been a significant labor stoppage at the District since 1978.

Pensions

Substantially all full-time and qualifying temporary and part-time employees of the District participate in one of the following State-wide cost-sharing multiple-employer plans administered by the State’s Department of Retirement Systems (“DRS”): the Public Employees Retirement System (“PERS”) Plans 1, 2 or 3. 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. PERS Plan 3 is a hybrid defined benefit/defined contribution plan in which the employer contributes to the defined benefit portion and the employee contributes to the defined contribution portion. The State Legislature establishes, and from time to time amends, laws pertaining to the creation, administration, and funding of these retirement systems; however, employees are contractually entitled to receive plan benefits.

The information in this section has been obtained from the District’s financial statements and information on the websites of DRS and of the Office of the State Actuary (“OSA”), a nonpartisan legislative agency charged with advising the State Legislature and Governor on pension benefits and funding policy. DRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for each plan. The DRS Comprehensive Annual Financial Report (the “DRS CAFR”) may be obtained from the DRS website at www.drs.wa.gov (which is not incorporated herein by this reference).

Plan Funding; Contribution Rates and Amounts. All DRS 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 District and other governmental employers); (3) contributions from employees; and (4) investment returns. Retirement funds are held in the Commingled Trust Fund (“CTF”) and invested by the Washington State Investment Board, a 15-member board created by the Legislature in 1981. The average annualized dollar-weighted return on the investment of retirement funds held in the CTF for the 10-year period ended June 30, 2018 was 7.48%.

Under State statute, employer and employee 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, who 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. For all PERS plans, the State Legislature has established a minimum employer contribution rate of 3.50%, to be used for the sole purpose of amortizing a portion of the unfunded actuarial accrued liability of PERS Plan 1 and to remain in effect until the actuarial liability of PERS Plan 1 is fully funded. In the 2019-2021 State biennium, a portion of the employer contribution rate equal to 4.76% is used for this purpose and is included in the employer contribution rate shown below.

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

**TABLE 6
CONTRIBUTION RATES FOR THE 2019-2021 BIENNIUM
EXPRESSED AS A PERCENTAGE OF COVERED PAYROLL**

	Employer⁽¹⁾	Employee
PERS Plan 1	12.86%	6.00%
PERS Plan 2	12.86	7.90
PERS Plan 3	12.86	5.00-15.00 ⁽²⁾

⁽¹⁾ Includes a 0.18% State Department of Retirement Systems administration expense fee.

⁽²⁾ Participants in PERS Plan 3 do not contribute to the cost of the defined benefit plan.

Source: Department of Retirement Systems.

Plan Funding Status and Unfunded Actuarial Liability. While the District’s prior contributions represent its full statutorily required contribution to the retirement systems, any unfunded pension benefit obligations could be reflected in future years as higher contribution rates.

OSA prepares actuarial calculations to develop contribution rates for employers and employees. OSA uses the Entry Age Normal (“EAN”) cost method to report each Plan’s funded status. The annual cost of benefits under EAN is comprised of two components: normal cost and amortization of the unfunded liability. The normal cost is most commonly determined on an individual basis from a member’s age at plan entry and is designed to be a level percentage of pay throughout a member’s career. Comparing the EAN liabilities to the actuarial value of assets (“AVA”) on the valuation date provides an appropriate measure of a plan’s funded status and is acceptable according to current Government Accounting Standards Board (“GASB”) Statements 67 and 68. For purposes of determining the actuarial accrued liability of each plan and the unfunded portion thereof, OSA uses actuarial cost and asset valuation methods determined by the State Legislature, which differ from plan to plan. For purposes of calculating contribution rates, the State Legislature determines the long-term assumed rate of investment return to be used by OSA. The long-term assumed rate of investment return is 7.50%. Beginning with its actuarial valuation as of June 30, 2017, OSA further assumes a salary growth rate of 3.50% per year, an inflation rate of 2.75% per year, and a plan membership growth rate of 0.95% per year.

**TABLE 7
FUNDED STATUS ON AN ACTUARIAL VALUATION BASIS⁽¹⁾
(DOLLARS IN MILLIONS)**

	PERS 1	PERS 2/3
Actuarial Accrued Liability	\$11,942	\$40,024
Actuarial Value of Assets	(7,193)	(36,601)
Unfunded Actuarial Liability (Surplus)	4,749	3,423
Funded Ratio	60%	91%

⁽¹⁾ As of June 30, 2018, the most recent actuarial valuation date. Liabilities valued using the EAN cost method at an assumed investment rate of return of 7.5%. All assets valued under the actuarial method.

Source: OSA 2018 Actuarial Valuation, September 2019.

PERS Plans 2 and 3 are accounted for in the same pension trust fund and may legally be used to pay the defined benefits of any PERS Plan 2 or 3 members. Otherwise, assets for one plan may not be used to fund benefits for another plan; however, all employers in PERS are required to make contribution at a rate (percentage of payroll) determined by the OSA every two years for the sole purpose of amortizing the PERS Plan 1 unfunded actuarial accrued liability within a rolling ten-year period.

GASB Reporting Rules. The District is required to report its pension liabilities in accordance with generally accepted accounting principles (“GAAP”); therefore, its proportionate share of the net plan asset or liability for each pension plan in which District employees participate is reported in the financial statements. 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 employer’s proportionate share of the plan liability and OSA determines each plan’s accounting valuation. The GASB rules impact accounting for pensions and not the funding status of the plans calculated by OSA or pension contribution rates that are set based on statutory assumptions and procedures.

DRS has calculated the collective net pension liability for the various retirement plans and the District’s share of such liability based on GASB reporting requirements. 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 7.40%, the assumed economic inflation rate is 2.75%, and the assumed salary inflation rate is 3.50%. The DRS CAFR uses a different discount rate for its calculation of the District’s share of pension liabilities than OSA uses to determine recommended employer contribution rates.

Based on the OSA actuarial valuation as of June 30, 2018, with the results rolled forward to June 30, 2019, and using the assumptions set forth above, DRS determined the net pension liability of PERS Plan 1 and PERS Plans 2 and 3, and DRS further determined each participating employer’s proportionate share of such net pension liability. As of June 30, 2019, the District’s proportionate share of such net pension liability totaled approximately \$24.8 million.

The District’s actual contributions to the plan were \$8.3 million and \$7.0 million for the years ended December 31, 2018 and 2017, respectively. 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 attached hereto as Appendix B.

For further information, see the DRS CAFR and DRS Participating Employer Financial Information for the Fiscal Year Ended June 30, 2019, which are not incorporated by reference into this Official Statement and which can be obtained from DRS.

District employees also participate in the federal Social Security program.

Deferred Compensation Plans

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

The District also administers a 401(a) governmental profit sharing plan and trust. Eligible employees may participate in the 401(a) defined contribution plan. The election to participate in the 401(a) defined contribution plan must be made at the time the employee becomes eligible to participate and cannot be changed during the time of their employment. 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 approximately \$1.0 million in 2018 and 2017, respectively. Effective January 1, 2020, the District will contribute up to 3% without regard to employee contributions, and the District expects that this change will result in increased expenses.

Other Post-Employment Benefits

The District administers a single-employer defined benefit premium program (the “OPEB Plan”). District employees who end public employment are eligible to continue subsidized health insurance coverage as a retiree (between ages 59½ and 65) if they retire under PERS and are vested in that system and eligible for COBRA. The plan may be amended through collective bargaining (for bargaining unit employees) and ratified by the District’s Commission, or

changed without bargaining for non-bargaining unit employees. The OPEB Plan does not issue a publicly available financial report.

The OPEB Plan is funded on a pay-as-you-go basis, and there are no assets accumulating in a qualifying trust. For the years ended December 31, 2018 and 2017, the District paid approximately \$428,000 and \$299,000, respectively, for OPEB Plan benefits.

For more information, see Note 9 to the audited financial statements attached hereto as Appendix B.

Insurance

The District carries excess liability coverage with an annual aggregate limit of \$60.0 million with a self-insured retention of \$2 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 does not carry a stand-alone cybersecurity insurance policy; however, it has cybersecurity coverage under two of its existing liability policies, subject to the policy limits and terms contained therein. The District has established an insurance reserve fund at a minimum balance of \$1.0 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 \$1.1 million at 2018 year end. The District also maintains property insurance coverage with an aggregate limit of \$200.0 million, protecting against significant losses at the Priest Rapids Project, the Electric System, and all of the various District real properties, with 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 July 2019. The strategic plan is reviewed annually and modified as necessary by staff and the Commission. This strategic plan addresses key District issues associated with complying with the license requirements for the Priest Rapids Project, resource management, operations and maintenance, capital improvements, power supply, customer service, reliability and institutional matters such as employee development and succession planning, and legislative and external affairs.

The District's financial strategy includes stable retail rates and continued assurance of meeting the District's financial obligations and goals. For the Electric System and Priest Rapids Project, the District targets consolidated debt service coverage greater than or equal to 1.80 times and consolidated ratio of debt to net plant less than or equal to 60%. Financial parameters for the Electric System include a retail operating ratio of less than or equal to 100% (internal ratio designed to target retail rates to fully recoup operational costs absent wholesale revenues), Electric System liquidity cash reserves of at or above \$105.0 million, and days cash on hand greater than 250 days. Financial parameters for the Priest Rapids Project include a debt service coverage no less than 1.15 times, which is the debt service coverage required by the bond resolutions authorizing the Priest Rapids Project Bonds.

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

Investments

The District invests its available funds in a manner that emphasizes preserving principal, maintaining necessary liquidity, matching investment maturities to estimated cash flow requirements, and achieving maximum yield consistent with the foregoing criteria. Eligible investments include United States Treasury bonds, notes, bills or other obligations of the United States government or agencies of the United States government; interest bearing demand or time deposits issued by certain banks, trust companies or savings and loan associations; fully-secured repurchase agreements; banker's acceptances having a term of 180 days or less; taxable money market portfolios restricted to obligations of one year or less and issued and guaranteed by the full faith and credit of the United States government; and any other investments permitted to a municipality under the laws of the State. Investments generally are made so

that securities can be held to maturity. The Bond Resolution provides that money in the Bond Fund, Reserve Funds, Revenue Fund, and R&C Fund be invested in any investments permitted under State law.

At year-end 2018, the market value of the District's total cash and investment assets was \$542.1 million. For additional information relating to the District's investments, see Note 2 to the audited financial statements attached hereto as Appendix B.

Hazardous Waste Issues

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

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

Physical Security Efforts at the District

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

The Security Department actively participates on the U.S. Department of Homeland Security Dams Sector Coordinating Council, the Western Electricity Coordinating Council Physical Security Work Group, the ASIS International Utilities Security Council, and the Electricity Information Sharing and Analysis Center. The Security Department conducts 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 employs a risk based methodology to evaluate and respond to the ever changing threat landscape, mitigating threats related to both IT and ICS. The architecture of its IT and ICS systems provides for both high availability and redundancy while mitigating both current threats and future threats.

The District seeks to comply with the North American Energy Reliability Corporation Critical Infrastructure Protection ("NERC CIP") regulations, which outline the compliance requirements for the District's ICS systems. The operations and cyber security staff dedicated to the reliability of the District's IT and ICS systems are certified and trained, and maintain their skills and awareness through involvement in 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 and reliability 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 has incorporated cyber risk reviews into its technology service and product acquisition processes, employs continuous monitoring of its partners and environment, and performs an annual vulnerability assessment to identify any outstanding issues and gaps that can be mitigated in an effort to improve and maintain its reliability 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 the County. For the year ending December 31, 2018, the Electric System operated approximately 4,351 miles of transmission and distribution lines and other related infrastructure to serve approximately 50,688 retail customers. As of December 31, 2018, the District’s gross investment in the Electric System was approximately \$1.1 billion and its net investment was approximately \$596.0 million. The hydroelectric generation facilities of 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 revenues for 2018 totaled approximately \$265.0 million. Of this total, approximately \$201.0 million (76%) was derived from retail energy sales to an average of 50,097 customers. Sales to other utilities provided approximately \$39.7 million of revenues (15% of the total). See “Power Supply Management and Power Marketing.” Of the retail customers, approximately 76% were residential customers, providing 15% of all retail energy revenues. The Electric System has experienced a stable residential customer base over the past five years. It is estimated that between 85% and 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 most important variable in power sales to residential accounts from year to year is weather as it relates to heating and cooling requirements. Retail sales are a significant portion of revenue as stated above; however, the Electric System also receives significant surplus revenue from wholesale sales related to excess generation from the Priest Rapids Project above its load. Retail sales are projected to remain the primary revenue source as load and rates increase.

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The 10 largest customers, based on retail revenue of the Electric System for the 12 months ended December 31, 2018, are shown in the following table.

**TABLE 8
ELECTRIC SYSTEM LARGEST CUSTOMERS
(Listed alphabetically)**

Customer	Location	Product
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
Moses Lake Industries	Moses Lake	High performance chemicals for semiconductors/flat panel industries
Norco, Inc.	Moses Lake	Liquid nitrogen, oxygen and argon
Nouryon Pulp & Performance (formerly Akzo Nobel)	Moses Lake	Global paints, coatings and specialty chemicals
REC Solar Grade Silicon LLC	Moses Lake	Polycrystalline silicon and silane gas
SGL Automotive Carbon Fibers LLC	Moses Lake	Carbon-based products
Verizon Wireless (formerly Yahoo!)	Quincy	Data center

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

The Electric System’s 10 largest customers used approximately 39% of total retail energy sold and provided approximately 35% of retail revenues in 2018. The two largest customers used approximately 21% of total retail energy sold and provided nearly 20% of retail revenues in 2018. The District’s rate structure for industrial customers is designed to include the marginal cost of additional power purchases. The Priest Rapids Project Power Sales Contracts (as defined under “THE PRIEST RAPIDS PROJECT—Priest Rapids Project Power Sales Contracts”) contain provisions that, when coupled with the low production cost of the Priest Rapids Project, are currently expected to mitigate some or all of the impacts to the District from loss of significant quantities of retail load.

The County continues to be an attractive location for large industrial, IT, and manufacturing customers to locate or enlarge their operations. The five-year growth for the retail system has been strong with an increase in energy sales of 25% in years 2013-2018. The prior five-year energy sales growth was 10% in years 2008-2013. The industrial sector has accounted for a significant portion of the system growth, increasing the class sales by 73% over the total ten-year time frame. The residential base has remained stable with some growth over this timeframe.

REC Solar Grade Silicon LLC (“REC”) produces solar grade silicon and is one of the largest producers of silane gas in the United States. Chinese tariff policies have negatively impacted REC’s business, and REC is selling its Butte, Montana facility to focus on Moses Lake. 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 including Microsoft, Yahoo!, Intuit, Dell, Sabey Data Centers, and others. 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 manages requests for service in the order received and has historically experienced a high volume of inquiries, many of which do not materialize for a variety of reasons, which is why load forecasts are based upon signed agreements. The District believes that this growth is manageable based on the availability of resources and the structure of the District’s Power Sales Contracts for the Priest Rapids Project.

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 9
ELECTRIC SYSTEM
RETAIL CUSTOMERS, ENERGY SALES, AND REVENUES

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Number of Customers (Average) ⁽¹⁾					
Residential	35,998	36,347	36,869	37,774	38,368
Commercial ⁽²⁾	6,476	6,260	6,367	6,951	7,063
Irrigation	4,708	3,052	2,648	5,158	4,951
Industrial ⁽²⁾	126	130	141	217	232
Other ⁽³⁾	119	120	124	410	74
Total Customers	<u>47,427</u>	<u>45,909</u>	<u>46,149</u>	<u>50,510</u>	<u>50,688</u>
Energy Sales (MWh) ⁽¹⁾					
Residential	764,290	771,753	725,896	837,342	765,978
Commercial ⁽²⁾	475,500	477,787	487,340	525,826	486,901
Irrigation	600,030	619,332	567,541	537,994	567,409
Industrial ⁽²⁾	2,336,569	2,664,779	2,648,052	2,778,143	3,084,417
Other ⁽³⁾	6,227	6,138	13,408	6,101	6,050
Total Energy Sales	<u>4,182,616</u>	<u>4,539,789</u>	<u>4,442,237</u>	<u>4,685,406</u>	<u>4,910,755</u>
System Peak (MW)					
Winter	691	623	717	793	723
Summer	717	777	748	779	812
Revenues from Energy Sales (\$000) ⁽¹⁾					
Residential	\$ 39,845	\$ 39,127	\$ 40,252	\$ 45,270	\$ 43,160
Commercial ⁽²⁾	20,720	21,451	22,643	24,580	24,296
Irrigation	23,026	24,481	23,876	24,080	25,785
Industrial ⁽²⁾	75,049	86,822	87,961	93,446	106,094
Other ⁽³⁾	1,034	1,034	1,066	1,097	2,056
Total Revenues	<u>\$ 159,674</u>	<u>\$ 172,915</u>	<u>\$ 175,798</u>	<u>\$ 188,473</u>	<u>\$ 201,391</u>

(1) Statistics classified by service type. Beginning in 2017, customers are reported in accordance with U.S. Energy Information Administration definition of a customer, which is an active meter. This is to ensure consistency in customer data published externally and align with industry standards. In prior years, customer is defined as an existing Service Agreement, which may have one or more active meters or can change independent of active meters providing service in the District's service territory. The difference between service agreement and active meter counts is considered immaterial.

(2) 2017 figures for commercial and industrial customers are adjusted for comparative purposes due to certain large commercial customers being excluded from industrial figures.

(3) "Other" includes street lighting, public authorities and non-firm retail energy sales.

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. In 2015, the District entered into a five year transaction (“Pooling Agreement”) with Shell Energy North America (“SENA”) that terminates on September 29, 2020. The Pooling Agreement is intended to shift hydro variability to SENA and create stable revenues for the District. The District also is routinely a party to a number of short term power and capacity contracts (“Slice Contracts”) and utilizes market purchases and sales as needed to manage smaller positions. The District is in the process of completing contract negotiations for new contract(s) to begin upon the expiration of the SENA contract in October 2020 to continue a similar strategy of reducing hydro variability. See “Sale of All of the District’s Share of Priest Rapids Project Output” for additional information regarding the District’s contractual relationship with SENA.

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 2014 through 2018. For information on 2019 to date, see “Management’s Discussion of Results.”

**TABLE 10
ELECTRIC SYSTEM
WHOLESALE ENERGY SALES**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Wholesale Energy Sales (\$000) ⁽¹⁾⁽²⁾	\$ 81,078	\$ 82,073	\$ 54,060	\$ 41,284	\$ 39,717
Total MWh ⁽²⁾⁽³⁾	2,142,561	2,526,466	1,478,254	884,124	832,671
Average Revenue (\$/MWh) ⁽⁴⁾	\$37.84	\$32.49	\$36.57	\$46.69	\$47.70

⁽¹⁾ Sales to other utilities and power marketing entities.

⁽²⁾ When comparing 2015 to 2016 and later years, surplus power available for resale by the District decreased due to the portion of the Priest Rapids Project sold to SENA in accordance with the Pooling Agreement. Open market purchases made by the District also decreased because SENA provided sufficient power to meet the District’s retail load requirements. 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 96% of average in 2015, 98% of average in 2016, 126% of average in 2017, and 111% of average in 2018. Net Energy Production in 2014 was reduced due to the Wanapum spillway monolith fracture. See “THE PRIEST RAPIDS PROJECT—Wanapum Spillway Monolith Fracture.” As the District’s load has continued to grow, less power has been available for wholesale sales.

⁽⁴⁾ There has been an increase in the value of power over the past few years. The ancillary services and carbon-free attributes available as part of the SENA Pooling Agreement and Avangrid Renewables, Inc. slice contract have further increased the per-MWh value of wholesale energy sales.

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

Credit exposures are monitored routinely on notional and mark-to-market values of forward purchase and sales agreements. In the event that credit exposure approaches a predetermined threshold, the District would determine the most appropriate course of action including, but not limited to, trading out of the given transactions. If no other action was deemed to be in the best interest of the District, the District would proceed to provide a letter of credit or collateral 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.

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 2019, the District entered into a contract with Avangrid Renewables, Inc. ("Avangrid") for a 10% slice of the output of the Priest Rapids Project for the term July 1, 2019 through December 31, 2021. 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 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 District enters into short term fixed price power purchases and sales to manage net monthly position price risk consisting of other purchases, sales, generation and forecasted District retail load. The District has the right to curtail delivery in the event of non-payment and maintains strong credit provisions with all slice counterparties.

The District entered into the Pooling Agreement with 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 expires September 29, 2020.

The Pooling Agreement provides for the delivery by the District to SENA of 53.3% of the capacity and associated energy of the Priest Rapids Project 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 enhance reliability in accordance with prudent reliability standards. In addition, the Pooling Agreement reduces the effect of variable water conditions at the Priest Rapids Project on revenues associated with the District's wholesale sales and purchases. Under the Pooling Agreement, 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 Public Utility District, (v) an adjustment related to provide the Canadian Entitlement to Bonneville Power Administration ("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. In the event of a default by SENA, as described below, the District would regain the capacity and energy of the Priest Rapids Project.

The Pooling Agreement defines “Events of Default” to include (1) payment defaults, (2) representations or warranties that are false or misleading, (3) failure to perform any material covenant or obligation (unless due to Uncontrollable Force or the District’s failure to deliver Priest Rapids power or other attributes), (4) bankruptcy, or (5) failure to post collateral. Upon an Event of Default, the non-defaulting party may terminate the Pooling Agreement and calculate a termination payment based on (a) the net economic loss to it (on a present value basis) resulting from the termination plus (b) any costs incurred by the party to terminate the Pooling Agreement, including any costs paid to third parties to terminate a power sales contract. No payment is allowed to a defaulting party.

Rates

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

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

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

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

The following table shows the current rates for residential, commercial (large general service), and industrial customers. These rates initially became effective for meter readings on and after April 1, 2018.

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

	Basic Charge	Energy Charge (per kWh)	Demand Charge (per KW of billing demand)	Minimum Monthly Charge
Residential Rate	\$0.55/day	\$0.04547	N/A	\$20.00
Commercial Rate (large general service rate)	\$148.32/month	\$0.02100 (for the first 50,000 kWh) \$0.01875 (for all additional kWh)	\$4.96	\$148.32
Industrial Rate	\$624.00/month	\$ 0.02015 (for the first 7,300,000 kWh) \$ 0.03250 (for all additional kWh)	\$ 5.12	Computed as demand charge times 75% of the customer's maximum billing demand during the most recent 12 month period

Source: The District.

The following table shows retail rate increases since 2010.

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

Date	Percentage Increase
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
April 1, 2018	2
April 1, 2019	0

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. With the exception of rate changes already approved by the Commission to become effective in 2020 in “Rate Schedule 17 – Evolving Industry,” the Commission does not anticipate raising rates in 2020.

The following table compares the District’s monthly rates and charges for selected comparable residential, commercial and industrial loads with those of other local and major public and private Pacific Northwest utilities. The representative monthly electric bills shown are based on comparable customer types and usage profiles, and on the specific rate schedules for each utility. Use of different schedules applicable to particular customers would yield different results.

**TABLE 13
ELECTRIC SYSTEM
COMPARATIVE SAMPLE OF MONTHLY ELECTRIC BILLS⁽¹⁾**

Utility	Residential ⁽²⁾	Commercial ⁽³⁾	Industrial ⁽⁴⁾
Chelan County PUD No. 1	\$ 41.45	\$ 1,336.35	\$ 43,113.50
The District	73.57	2,297.32	62,974.00
Benton County PUD No. 1	111.54	3,124.52	129,031.44
Franklin County PUD No. 1	118.13	3,680.01	124,536.70
Pacific Power (a PacifiCorp Company)	117.04	3,820.28	141,067.00
City of Seattle	155.73	2,633.62	181,938.75
Average (excluding the District)	108.78	2,918.96	123,937.48

⁽¹⁾ Rate schedules and rate classifications vary. Some rates include city, state or other local utility tax. All utilities are municipal entities except Pacific Power, which is an investor-owned utility subject to regulation by the Washington Utilities and Transportation Commission.

⁽²⁾ Residential estimates are based upon 1,250 kWh monthly use, year-round.

⁽³⁾ Commercial estimates are based upon 400 kWh demand and 13,000 kWh monthly use.

⁽⁴⁾ Industrial estimates are based upon 5,000 kWh demand and 2,000,000 kWh monthly use.

Source: The District and publicly available information from the listed individual utilities.

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 contract, and market purchases. Since 2005, the Power Sales Contracts for the Priest Rapids Project have permitted the District to increase its share of power from the Priest Rapids Project, which has significantly reduced the District’s reliance on power from Bonneville. Effective October 1, 2011, the District purchases approximately 1% of its power from Bonneville to serve loads in the Grand Coulee area 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 to more than 148 utility, industrial and governmental customers in the Pacific Northwest. Its service area covers over 300,000 square miles and has a population of about 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 (five aMW or roughly one percent 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 contract expires on October 1, 2030. This 12 MW reservation runs for the term of the power purchase from Nine Canyon. The District also has a Network Integration Transmission Service ("NT") contract with Bonneville for delivery to a full requirements District load in the Grand Coulee area. This load averages about five MW.

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

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. ColumbiaGrid is expected to close down operations on or prior to December 31, 2020. The members of ColumbiaGrid along with the members of the Northern Tier Transmission Group ("NTTG") have formed a regional planning organization called NorthernGrid. NorthernGrid will have most of the footprint that previously resided in ColumbiaGrid and NTTG. The members of NorthernGrid expect to have NorthernGrid operational on or around January 1, 2020. NorthernGrid is not a regional transmission organization and will provide services based on several agreements signed by the members.

Nine Canyon Wind Project

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

Phase I of the project became commercially operable in 2002. Costs of constructing the project were financed, and subsequently refinanced, through the issuance of revenue bonds by Energy Northwest, of which \$18.3 million 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, 2017 and 2018 was \$70.65 per MWh and \$64.42 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 28,227 MWh and 30,958 MWh of wind generation output from the project in 2018 and 2017, 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 27,857 MWh and 32,071 MWh in 2019 and 2018, 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 19,799 MWh and 19,982 MWh in 2019 and 2018, 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, 152 MWh, and 1,429 MWh for 2013, 2014, 2015, and 2016, respectively. The Wapato Hydroelectric Project has not generated electricity during 2017-2019 due to operational 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 \$1.707 billion in outstanding bonds for Energy Northwest’s Project No. 1 and 70% ownership share of Project No. 3 (collectively, the “Net Billed Projects”). Under the agreements, the District is unconditionally obligated to pay Energy Northwest its pro rata share of the total costs of the projects, including debt service, whether or not construction is terminated. The District’s assignment of these project costs has been assumed by Bonneville at the levels of 0.486% and 0.420% of the capability of Project No. 1 and Energy Northwest’s ownership share of Project No. 3, respectively. Under the Net Billing Agreements, Bonneville is responsible for the District’s percentage share of the total annual cost of each project, including debt service on revenue bonds issued to finance the costs of construction. The District’s revenue requirements are affected only to the extent that the costs of the projects result in increases in Bonneville’s wholesale power rates. Notwithstanding the assignment of the District’s share of the capability of a Net Billed Project to Bonneville, the District remains unconditionally obligated to pay to Energy Northwest its share of the total annual cost of the Net Billed Project to the extent payments or credits relating to such annual cost are not received by Energy Northwest from Bonneville.

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 2019 targets for renewable energy under I-937. The District fully expects that its available qualifying renewable generation will continue to meet the majority of the requirements of I-937, and it will supplement with other qualifying resources as the District's load may require.

Energy Conservation Target

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

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

The District set a two-year conservation target (2020-2021 biennial target) of 35,828.4 MWh. The District's achievement toward satisfying the 2016-2017 target is currently being audited by the State Auditor's Office pursuant to the provisions of the EIA. The 2018-2019 biennial target was set at 32,149 MWh, and, through November of 2019, the District has exceeded the target at an incentive cost of \$1.6 million thus far.

Clean Energy Transformation Act

In 2019, the Washington State Legislature adopted Engrossed Second Substitute Senate Bill 5116 (codified at chapter 19.405 RCW), known as the Clean Energy Transformation Act ("CETA"). CETA became effective on May 7, 2019. CETA requires all electric utilities to eliminate from electric rates all costs associated with delivering electricity generated from coal-fired power plants by December 31, 2025. It also requires each electric utility to make all retail sales of electricity greenhouse gas neutral by January 1, 2030, and to meet 100% of its retail electric load using non-emitting and renewable resources by January 1, 2045.

State agencies are engaged in the rulemaking process, which is expected to be largely completed by the end of 2020. The District intends to rely upon its hydro-based generation, Nine Canyon Wind Project generation, and resource planning process to comply with CETA.

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 (“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 1980s. That system now links the Priest Rapids and Wanapum Developments, most of the District’s substations, all local offices and the District’s headquarters building. This system created a fiber optics “backbone” which 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.

The Wholesale Fiber Optic Network was expanded in the County in 2018 and 2019. As of September 30, 2019, the District’s Wholesale Fiber Optic Network was available to 31,937 homes and businesses within the County. Currently 18,421 users subscribe to services from the existing group of retail providers. The Wholesale Fiber Optic Network currently has 14 retail service providers, which include small local or regional companies as well as six 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 2018 and 2017, the District spent \$8.3 million and \$3.2 million, respectively, for Wholesale Fiber Optic Network expansion and capital improvements. Through the year ended December 31, 2018, the District had invested more than \$180.0 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. Wholesale fiber optic network sales were \$8.3 million, \$6.9 million and \$6.2 million in 2018, 2017 and 2016, respectively. These increases of \$1.4 million (17%) from 2017 to 2018 and \$0.7 million (11%) from 2016 to 2017 are primarily driven by the substantially improved take rate (percentage of system subscribed versus unsubscribed), continued build out of the network and moderate price increases on the most popular service offerings. See the audited financial statements for the District attached as Appendix B, including in particular Note 11, for additional financial and other information regarding the District’s telecommunications system.

Electric System Operating Results

The following table shows the Electric System’s historical operating results for fiscal years 2014 through 2018. 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 14
ELECTRIC SYSTEM HISTORICAL OPERATING RESULTS
(\$000)

Revenues	2014	2015	2016	2017	2018
Retail Energy Sales	\$ 159,674	\$ 172,915	\$ 175,798	\$ 188,473	\$ 201,391
Miscellaneous Electrical Revenues ⁽¹⁾	29,580	20,320	12,599	19,544	23,568
Sales to Other Utilities ⁽²⁾	81,078	82,073	62,521	54,753	39,717
Total Revenues	\$ 270,332	\$ 275,308	\$ 250,918	\$ 262,770	\$ 264,676
Expenses					
Power Supply Costs ⁽²⁾⁽³⁾	\$ 164,278	\$ 141,633	\$ 111,017	\$ 129,175	\$ 112,249
Operation and Maintenance ⁽⁴⁾	35,936	36,957	35,855	36,323	37,187
Taxes	12,193	13,646	12,865	14,344	14,835
Total Expenses	\$ 212,407	\$ 192,236	\$ 159,737	\$ 179,842	\$ 164,271
Net Revenue	\$ 57,925	\$ 83,072	\$ 91,181	\$ 82,928	\$ 100,405
Interest and Other Income ⁽⁵⁾	\$ 3,091	\$ 4,349	\$ 7,561	\$ 11,756	\$ 14,003
Transfer to the Rate Stabilization Account	--	--	--	--	--
Revenues Available for Debt Service	61,016	87,421	98,742	94,684	114,408
Debt Service					
Parity Bonds	(12,152)	(8,291)	(7,483)	(7,696)	(5,681)
Subordinate Lien Bonds	--	--	(236)	(684)	(1,725)
Less Debt Service	(12,152)	(8,291)	(7,719)	(8,380)	(7,406)
Uncommitted Revenues	\$ 48,864	\$ 79,130	\$ 91,023	\$ 86,304	\$ 107,002
Beginning Working Capital	\$ 154,047	\$ 108,423	\$ 97,227	\$ 146,606	\$ 106,386
Bond Proceeds – Construction Fund	50,000	--	50,000	50,000	--
Funds Available for Construction	\$ 252,911	\$ 187,553	\$ 238,250	\$ 282,910	\$ 213,388
Less Capital Construction	(45,612)	(41,073)	(40,345)	(59,392)	(45,552)
Change in Other Balance Sheet Accounts	(98,876)	(49,253)	(51,299)	(117,132)	1,415
Ending Working Capital⁽⁵⁾	\$ 108,423	\$ 97,227	\$ 146,606	\$ 106,386	\$ 169,251
R&C Fund⁽⁶⁾	\$ 121,783	\$ 123,243	\$ 125,820	\$ 121,262	\$ 124,201
Debt Service Coverage	5.02x	10.54x	13.20x	12.30x	20.14x
Subordinate Lien Bond Debt Service Coverage⁽⁷⁾	N/A	N/A	378.28x	124.36x	62.21x
Retail Energy Sales (MWh)	4,182,616	4,539,789	4,442,237	4,685,406	4,910,755
Average Retail Energy Rate Increase	2%	2%	2%	2%	2%
Average Retail Revenue Requirement (cents/kWh)	3.82¢	3.81¢	3.96¢	4.02¢	4.10¢

(1) The District recognized earned contributions in aid of construction of \$12.5 million, \$10.6 million, \$4.6 million, \$13.2 million, and \$22.8 million in 2018, 2017, 2016, 2015, and 2014 respectively.

(2) The majority of the decrease from 2015 to 2016 and later years 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 in 2014 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) Includes amounts in the construction funds.

(6) \$109.6 million of this balance is held in the Rate Stabilization Account and designated as available for rate stabilization for debt service coverage purposes.

(7) In 2017 and 2019, the District issued its Electric System Subordinate Bonds, payment of which is subordinate to the payment of Parity Bonds. The coverage requirement for the Electric System Subordinate 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 2014 through 2018.

TABLE 15
ELECTRIC SYSTEM
HISTORICAL ENERGY REQUIREMENTS, RESOURCES AND POWER COSTS

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Annual Energy Requirements (MWh)					
Retail Sales ⁽¹⁾	4,182,809	4,541,611	4,442,237	4,685,406	4,910,755
Electrical System Usage	16,440	17,427	16,175	17,621	17,125
Sales for Resale ⁽²⁾⁽³⁾	2,142,561	2,526,466	1,478,254	884,124	832,671
Distribution/Transmission Line Losses	80,475	79,896	12,334	514,098	510,563
Total Energy Requirements	<u>6,422,285</u>	<u>7,165,400</u>	<u>5,949,000</u>	<u>6,101,249</u>	<u>6,271,114</u>
Annual Resources (MWh)					
Priest Rapids Project ⁽²⁾	4,795,499	6,309,509	5,621,831	5,692,276	5,782,372
Quincy Chute Project	32,798	36,716	26,370	30,866	32,071
P.E.C. Headworks Project	23,476	23,158	21,876	15,517	19,982
Bonneville	55,151	54,280	61,645	77,694	77,391
Other ⁽³⁾⁽⁴⁾	1,515,361	741,737	217,278	284,896	359,298
Total Energy Resources	<u>6,422,285</u>	<u>7,165,400</u>	<u>5,949,000</u>	<u>6,101,249</u>	<u>6,271,114</u>
Average Power Cost by Resource (cents/kWh)					
Priest Rapids Project ⁽⁵⁾	2.24¢	1.83¢	1.97¢	1.70¢	1.66¢
Quincy Chute Project	2.36	2.01	2.64	1.89	4.45
P.E.C. Headworks Project	2.50	2.77	2.90	1.40	4.02
Bonneville	3.78	2.97	2.56	3.17	3.14
Annual Power Cost by Resource (\$000)					
Priest Rapids Project ⁽⁵⁾	\$107,262	\$115,384	\$110,552	\$97,031	\$95,847
Quincy Chute Project	773	738	695	582	1,428
P.E.C. Headworks Project	588	642	634	218	804
Bonneville	2,083	1,614	1,578	2,461	2,429
Other ⁽⁶⁾	48,851	15,179	(4,679)	13,027	10,043
Wheeling	4,721	8,076	2,237	2,388	2,801
Total Power Costs (\$000)	<u>\$164,278</u>	<u>\$141,633</u>	<u>\$111,017</u>	<u>\$115,707</u>	<u>\$113,352</u>
Average Power Costs (cents/kWh)	2.56¢	1.98¢	1.87¢	1.90¢	1.81¢

⁽¹⁾ Reflects total retail energy requirements.

⁽²⁾ The fracture at the Wanapum Dam reduced 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 consistent financial results with high debt service coverage ratios and substantial cash reserves. The operating results for 2016 to 2018 reflect the benefits of the low cost production of the Priest Rapids Project, increased Electric System retail load, and effective risk management. The District produced positive changes in net financial position of \$89.9 million, \$76.2 million and \$82.2 million, during 2018, 2017 and 2016, respectively. Despite the regional challenges of low wholesale power prices, the District was able to add to the financial well-being of the utility. A large component to this success are the wholesale hedging contracts of the Electric System to mitigate the effect of fluctuations in wholesale power prices and water variability for generation from the Priest Rapids Project. During 2016 through 2018, the District was able to maintain a balance in the R&C Fund ranging from \$121.3 million to \$125.8 million. The District has always met its debt service coverage covenants, and from 2016 to 2018 the Electric System's debt service coverage ranged from 12.3x to 20.1x, in excess of the 1.25x required by the bond resolutions authorizing the Outstanding Parity Bonds.

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% effective April 1, 2017 and 2018, and approved no increase on April 1, 2019, due to the strong financial results exceeding targets. 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 to the extent they are needed. The District's retail revenues increased from \$175.8 million in 2016 to \$201.4 million in 2018 at a low cost delivered retail rate of 4.0-4.1 cents per kWh. The utility delivered 11% more retail energy to customers from 2016 to 2018 due to the diverse, growing load base. Based on preliminary results, the District expects that debt service coverage on Parity Bonds will continue to be above the 1.25 times coverage requirement for 2019.

Estimated 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 2020-2024 to be approximately \$311.6 million. The District is undertaking capital improvements to serve expected load growth. The District has customer contribution (contributions in aid of construction) policies that require customers to pay a portion of the cost of the facilities the District installs on their behalf. The capital improvements described below are expected to be paid from available Electric System revenue deposited into the District's Construction Fund and Finance Plan Fund and contributions in aid of construction.

The table below summarizes the 2020-2024 Electric System capital improvements program.

TABLE 16
ELECTRIC SYSTEM PROJECTED
CAPITAL IMPROVEMENTS PROGRAM 2020-2024 (\$000)

Transmission/Distribution	\$ 90,649
Fiber/Broadband	87,200
Labor	85,843
Technology	19,421
Transportation	17,531
General ⁽¹⁾	10,944
Total	<u>\$ 311,588</u>

⁽¹⁾ Includes buildings and property improvements, security, communication and control system improvements.

The District is in the early stages of due diligence on a 230 kV transmission expansion project which is expected to significantly increase overall system reliability and the District's ability to serve additional load in the Quincy area.

The current timeline calls for the transmission expansion project to be completed in 2026 with an estimated cost including internal labor and overheads of \$163.5 million, all of which is expected to be paid from available revenue of the Electric System.

Various Factors Affecting the Electric Utility Industry

The electric utility industry in general has been, or in the future may be, affected by a number of factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. Such factors include, among others: (i) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (iii) changes resulting from a national energy policy, (iv) effects of competition from other electric utilities and new methods of, and new facilities for, producing low-cost electricity, (v) federal laws and regulations, tariffs and congressional inaction; (vi) increased competition; (vii) issues integrating wind generation; (viii) cybersecurity and other security breaches; (ix) “self-generation” or “distributed generation” by industrial and commercial customers and others; (x) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission service from transmission line projects financed with outstanding tax-exempt obligations; (xi) effects of inflation on operating and maintenance costs; (xii) changes from projected future load requirements; (xiii) increases in costs and uncertain availability of capital; (xiv) shifts in the availability and relative costs of different fuels (including the cost of natural gas); (xv) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand; (xvi) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity; (xvii) other legislative changes, voter initiatives, referenda and statewide propositions; (xviii) effects of the changes in the economy; and (xix) climate change, disasters or other physical calamities.

The District, like many other large public and private entities, relies on a complex technology environment to conduct its operations and support the community it serves. The District has invested in cybersecurity protections in recent years to safeguard personal and institutional data by monitoring, analyzing, and forecasting threats to information assets, advising on risk management and on contracts related to data security, providing in-person and online education, consulting on incident management, and developing and managing District policies related to information security. Notwithstanding these and other cybersecurity measures, a cybersecurity breach could damage District systems and cause material disruption to operations and services. The cost to remedy such damage or protect against future attacks could be substantial. Security breaches could expose the District to litigation and other legal risks, which could cause the District to incur costs related to claims.

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

This discussion does not purport to be comprehensive or definitive, and these matters are subject to change after to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

CONSOLIDATED FINANCIAL RESULTS

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

TABLE 17
ELECTRIC SYSTEM AND PRIEST RAPIDS PROJECT CONSOLIDATED
HISTORICAL OPERATING RESULTS
(\$000)

	2014	2015	2016	2017	2018
Revenues					
Sales to Power Purchasers at Cost	\$ 61,099	\$ 51,083	\$ 40,001	\$ 41,789	\$ 31,610
Retail Energy Sales	159,674	172,915	175,798	188,473	201,391
Miscellaneous Electrical Revenues ⁽¹⁾	29,580	20,320	12,599	19,544	23,568
Wholesale Revenues, net ⁽²⁾	81,078	82,073	62,521	54,753	67,186
Total Revenues	<u>\$ 331,431</u>	<u>\$ 326,391</u>	<u>\$ 290,919</u>	<u>\$ 304,559</u>	<u>\$ 323,755</u>
Total Expenses ⁽³⁾	<u>\$ 174,752</u>	<u>\$ 160,093</u>	<u>\$ 125,619</u>	<u>\$ 136,608</u>	<u>\$ 135,940</u>
Net Revenues	<u>\$ 156,679</u>	<u>\$ 166,298</u>	<u>\$ 165,300</u>	<u>\$ 167,951</u>	<u>\$ 187,815</u>
Interest and Other Income	\$ 7,432	\$ 4,600	\$ 10,008	\$ 12,833	\$ 11,391
Federal Rebates on Revenue Bonds	7,770	8,214	10,545	10,556	10,552
Extraordinary Expense	(17,947)	(4,359)	9,896	--	--
Transfer to Rate Stabilization Account	--	--	--	--	--
Revenues Available for Debt Service	<u>\$ 153,934</u>	<u>\$ 174,753</u>	<u>\$ 195,749</u>	<u>\$ 191,340</u>	<u>\$ 209,758</u>
Less Debt Service	\$ 97,713	\$ 92,704	\$ 99,381	\$ 101,859	\$ 98,575
Debt Service Coverage	1.58x	1.85x	1.97x	1.88x	2.13x
Debt Service Coverage before Rate Stabilization Transfers	--	--	--	--	--
Utility Plant, Net of Accumulated Depreciation and Amortization	\$1,804,711	\$1,881,265	\$1,953,628	\$2,045,370	\$2,097,261
Outstanding Long-Term Debt	\$1,251,755	\$1,306,020	\$1,325,105	\$1,330,270	\$1,298,635
Debt to Plant Ratio	69%	69%	68%	65%	62%
Unrestricted Cash ⁽⁵⁾	\$ 190,408	\$ 208,141	\$ 263,101	\$ 89,490	\$ 156,036

⁽¹⁾ The District recognized earned contributions in aid of construction of \$12.5 million, \$10.6 million, \$4.6 million, \$13.2 million, and \$22.8 million in 2018, 2017, 2016, 2015, and 2014, respectively.

⁽²⁾ Under the Pooling Agreement, SENA has the rights to the actual output of a portion of the Priest Rapids Project, which will vary with water conditions, in exchange for providing firm power sufficient to meet the District's load forecast after necessary adjustments. The amount of power SENA provides is adjusted for the portion of Electric System load that is expected to be met with District resources and certain other non-hydrological performance metrics outlined in the agreement. The values exchanged between the District and SENA pursuant to the Pooling Agreement are offsetting and netted in the District's Financial Statements, which resulted in a decrease in Wholesale Revenues, net when comparing 2015 to later years.

⁽³⁾ Excludes noncash items of depreciation and amortization.

⁽⁴⁾ Excludes \$3.322 million of noncash portion of extraordinary expense related to permanent write down of the original spill way cost.

⁽⁵⁾ See Note 2 in the 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 953 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 1,204 MW. Located on the Columbia River in Grant and Kittitas Counties about 160 air miles northeast of Portland, Oregon, 129 air miles southeast of Seattle, Washington, and 18 miles upstream of the Priest Rapids Development, the Wanapum Development includes certain switching, transmission and other facilities necessary to deliver the electric output to the transmission networks of the District, Bonneville and certain other power purchasers.

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Energy Production and Cost

The following table shows the energy production for the Priest Rapids Project for the years ended December 31, 2014 to 2018. The major factors affecting Average Cost are annual variations in Columbia River water flows, and operating costs which include increased debt service.

TABLE 18
PRIEST RAPIDS PROJECT HISTORICAL ENERGY PRODUCTION

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Priest Rapids Project					
Net Peaking Production (MW)	1,687	1,804	1,745	1,755	1,816
Net Energy Production (000's MWh) ⁽¹⁾	7,755	8,678	9,193	9,041	9,259
Annual Availability Factor ⁽²⁾	87%	87%	85%	84%	86%
Plant Factor ⁽³⁾	57%	61%	66%	63%	64%
Average Cost (\$/MWh) ⁽⁴⁾	\$21.61	\$18.04	\$16.14	\$18.60	\$18.13
Bonneville Power PF Rate (\$/MWh) ⁽⁵⁾	\$31.50	\$31.50	\$33.75	\$33.75	\$35.57

⁽¹⁾ Run-off was 105% of average in 2014, 95% of average in 2015, 96% of average in 2016, 126% of average in 2017 and 111% of average in 2018. Net Energy Production decreased in 2014 due to the Wanapum 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⁾ The fracture at the Wanapum Dam increased operating costs for 2014.

⁽⁵⁾ Bonneville's published Priority Firm power rates.

Columbia River run-off in 2019 is expected to be approximately 85% of the annual calendar year average. Average cost (\$/MWh) is expected to be \$24.58. Due to the elimination of water risk through the District's slice contracts, low water volume in 2019, and therefore lower production volume and higher millage rate, have had no impact on the District's financial performance in 2019.

Priest Rapids Project Power Sales Contracts

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

The Power Sales Contracts consist of the "Product Sales Contract," the "Reasonable Portion Contract" and the "Exchange Contract." The District's Electric System can use up to 63.3% (Adjusted District Reserved Share) of the output of the Priest Rapids Project to serve its retail load. In accordance with the FERC order in the Public Law 83-544 proceeding, the District is required to dedicate 30% of the output of the Priest Rapids Project (the "Reasonable Portion") for sales within the region based on market principles. The sales proceeds, net of Priest Rapids Project costs of production, are allocated to the various parties to the Reasonable Portion Contract. The purchasers of the output of the Priest Rapids Project (the "Power Purchasers") are responsible for paying their proportionate share of all costs of the Priest Rapids Project associated with the Reasonable Portion regardless of the revenues allocated by the Reasonable Portion Contract. The District has the first right to use the "Reasonable Portion" proceeds to fund power purchases needed to serve its firm retail load in excess of the District's 70% (District Reserved Share) share of the Priest Rapids Project. The District, therefore, has the right to take or benefit from up to 93.3% of the generating capacity of the Priest Rapids Project and pay its proportional share of the cost of production. The remaining 6.7% is

sold to the other Power Purchasers. See “Regulatory Proceedings Affecting the Developments—*Allocation of Output.*”

TABLE 19
PRIEST RAPIDS PROJECT
PARTICIPATION OF POWER COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Power Purchaser	Percent Share⁽¹⁾	Priest Rapids Project Nameplate Rating⁽²⁾ (MW)
PacifiCorp Electric Operations	4.16%	89.715
Portland General Electric	4.16	89.715
Puget Sound Energy, Inc.	2.40	51.758
Tacoma Department of Public Utilities (Tacoma Power)	1.00	21.566
Seattle City Light	0.98	21.135
Avista Corporation	1.83	39.499
Public Utility District No. 1 of Cowlitz County	0.58	12.508
Eugene Water and Electric Board	0.50	10.783
Other Power Purchasers ⁽³⁾	2.51	54.131
The District’s Electric System	81.88	1,765.824
Total	100.00%	2,157.000

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

⁽²⁾ Based on installed nameplate rating of 2,157 MW. The nameplate rating allocation is based on the percentage of power costs attributable to each Power Purchaser divided by the total nameplate rating. The allocation changes annually since each Power Purchaser’s percentage of the total power costs will change under the New Power Sales Contracts. The total annual nameplate rating may change depending on the upgrades to the Priest Rapids Project.

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

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

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

Sale of Reasonable Portion

Pursuant to federal legislation and a FERC order, the District is required to sell 30% of the Priest Rapids Project power pursuant to market-based principles. The District sells at auction a minimum of 3% of the Priest Rapids Project output. The District also sells at auction the amount of power that the Power Purchasers elect not to take. The auction sets the price Power Purchasers must pay for their share of the Reasonable Portion power they elect to take. Power Purchases may assign their right to power at the auction price to another party. The District has seen active participation in the auctions of the Reasonable Portion. The following table summarizes the auction winners from 2014 through 2020.

TABLE 20
REASONABLE PORTION AUCTION WINNERS (\$000)

Period Covered (12 Months Ending)	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
December 2014	Morgan Stanley	10.14%	\$30,311	--	--
December 2014	Powerex	10.14	30,689	\$90,281	\$865
December 2015	Morgan Stanley	10.14	27,770	--	--
December 2015	Powerex	10.14	25,668	79,119	16,244
December 2016	Powerex	6.38	13,261	--	--
December 2016	TransAlta Energy	6.38	13,052	61,864	22,331
December 2017	Powerex	6.38	14,590	--	--
December 2017	Morgan Stanley	6.38	13,745	66,618	27,158
December 2018	Exelon	6.38	13,661	--	--
December 2018	TransAlta Energy	6.38	13,444	63,728	39,014
December 2019	Morgan Stanley	6.45	18,464	--	--
December 2019	Exelon	6.45	17,730	84,172	55,575
December 2020	Exelon	5.81	18,541	95,736	66,818

⁽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 \$27.2 million and \$39.0 million, for 2017 and 2018, respectively.

Priest Rapids Project Output

The actual amounts of energy sold to the Power Purchasers for the fiscal years 2014 through 2018 are shown in the following table. During the years 2014 through 2018, the Priest Rapids Project delivered to the Power Purchasers and the District an average of 8,785,312 MWh of net energy annually. See “Coordination Agreement” and “FERC License” for a description of certain of the factors that result in the net energy figures.

TABLE 21
PRIEST RAPIDS PROJECT HISTORICAL ENERGY SALES
(MWh)

	2014	2015	2016	2017	2018
Gross Generation ⁽¹⁾	8,396,060	9,615,304	10,096,515	9,750,914	10,121,806
Plus: Pond Transfer ⁽²⁾	(83,447)	45,928	84,956	--	--
Total Dissolved Gas Spill Return ⁽³⁾	--	--	1,605	--	--
Less: Rock Island Encroachment ⁽⁴⁾	(191,130)	(505,936)	(510,729)	--	--
Coordination Exchange ⁽⁵⁾	(13,621)	8,510	849	(207,901)	(359,848)
Less: Canadian Entitlements ⁽⁶⁾	(499,218)	(504,198)	(506,282)	(501,532)	(503,031)
Less: Spill Past Unloaded Units ⁽⁷⁾	146,636	18,158	26,192	--	--
Net Energy to Purchasers	7,755,280	8,677,766	9,193,106	9,041,481	9,258,927
Max. One-Hour Production (MW)	1,687	1,804	1,745	1,755	1,816
Plant Factor ⁽⁸⁾	57%	61%	66%	63%	64%
Annual Availability Factor ⁽⁹⁾	87%	87%	85%	84%	86%
Disposition of Net Energy					
District’s Electric System	4,795,499	6,309,509	5,621,831	5,692,276	5,782,372
PacifiCorp Electric Operations	83,346	88,272	91,474	95,381	98,118
Portland General Electric Co.	683,141	760,557	808,078	785,445	806,041
Puget Sound Energy, Inc.	50,302	53,753	60,243	54,816	47,197
City of Seattle	21,960	23,696	25,249	24,532	25,732
City of Tacoma (Tacoma Public Utilities)	22,732	25,362	26,981	27,440	26,971
Avista Corporation	266,585	318,181	343,757	352,574	343,487
Cowlitz County PUD	13,062	14,338	14,808	14,611	14,113
Eugene Water & Electric Board	11,829	13,154	14,432	13,560	13,818
Other Power Purchasers ⁽¹⁰⁾	1,806,824	1,070,944	2,186,253	1,980,846	2,101,078
Total ⁽¹¹⁾	7,755,280	8,677,766	9,193,106	9,041,481	9,258,927

(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.

(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. Pond Transfer, Dissolved Gas Spill Return and Rock Island Encroachment are individual provisions of the Mid-Columbia Hourly Coordination Agreement. Beginning in 2017, all of the Mid-Columbia Hourly Coordination Agreement provisions are consolidated and presented in the Coordination Exchange line.

(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.

(11) Certain columns may not add due to rounding.

Coordination Agreement

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, which requires hydroelectric power producers to coordinate their operations to maximize efficiency, consistent with other water uses. This agreement became effective on January 4, 1965, and a replacement agreement has been executed that, among other things, extends the term to 2024.

Transmission of Power from Priest Rapids Project

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

Canadian Treaty

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

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

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

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

FERC License

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

and United States Fish and Wildlife Service, and the Salmon and Steelhead and Hanford Reach settlement agreements described below.

Costs associated with the relicensing efforts, totaling \$57.1 million, were recorded as an intangible asset included in Utility plant and are being amortized over the term of the License. Accumulated amortization related to the relicensing efforts totaled \$24.6 million and \$21.9 million as of December 31, 2018 and 2017, respectively.

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 2020-2026 is estimated at approximately \$950,000.

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

Recreation Resources

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

In addition, the License required the District to implement a shoreline management plan to protect the scenic quality of the mid-Columbia River. Implementation of the plan, which was approved by FERC in 2013, primarily included issuing and monitoring non-project uses of Priest Rapids Project lands, including the leasing of 38 acres of property for private residential use within the Crescent Bar Recreation Area to enhance public access and recreation opportunities. A new 55-site RV campground, marina, fuel float, boat launch, parking area, walking trail, and day use area including playground equipment and sports courts, were completed in spring of 2017. A second boat launch and parking area were completed in spring of 2018 and upgrades to the water and wastewater systems were completed in 2019. The total cost through December 31, 2018 was \$40.9 million. By the end of 2019, the District will have invested more than \$60 million in capital development of these recreation sites and \$2.5 million in annual operations and maintenance, as required by the License.

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 2020-2026 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 construction cost of this project was \$20.5 million. A grand opening of the facility took place in the fourth quarter of 2015. The operation and maintenance budget for the NWHC programs is projected at \$7.8 million for 2020-2026.

Yakama Nation Agreement

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

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

The agreement went into effect on July 1, 2007. The net payments to the Yakama Nation totaled \$1.1 million and \$0.4 million during 2018 and 2017, 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 2019 is \$1.3 million and for 2020 to 2024 is forecasted between \$0.7 million to \$1.1 million.

Regulatory Proceedings Affecting the Developments

Allocation of Output. Federal legislation adopted in 1954, Public Law 83-544 (“PL 83-544”), requires the District, among other things, to offer a “reasonable portion” of the output of the Priest Rapids Project for sale in neighboring states. In 1998, in response to a complaint filed by several electric cooperatives seeking an allocation of power under a new license, FERC issued an order regarding distribution of the Priest Rapids Development power post-2005 and the Wanapum Development power post-2009. FERC ruled that the licensee can retain 70% of the Priest Rapids

Project's firm and non-firm power. The remaining 30% is designated as the "reasonable portion," and, pursuant to the order, must be sold in a fair, equitable and nondiscriminatory manner, pursuant to market based principles and procedures with a preference in the marketing of such power being given to the utilities and the Power Purchasers that participated in the PL 83-544 proceeding. See "Power Sales Contracts."

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

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

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

Hanford Reach Fall Chinook Protection Agreement. In 2004, the Hanford Reach Fall Chinook Protection Agreement was signed by Grant, Chelan, and Douglas County PUDs, Bonneville, the Washington Department of Fish and Wildlife, NOAA Fisheries, the Yakama Nation, United States Fish and Wildlife Service and the Confederated Tribes of the Colville Reservation. The agreement replaced 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 \$21.9 million into a No-Net Impact ("NNI") fund, which is based on annual salmonid mortality within the Priest Rapids Project for years 2006-2019. The District uses NNI funds to fund a variety of projects ranging from predator removal, adult fish passage, habitat restoration, instream flow enhancements, avian predator evaluations, and other projects. Contributions into the fixed Habitat funds for years 2006-2019 total slightly over \$44.3 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 \$18.0 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 \$150.0 million to upgrade all ten generators at Wanapum Development. Nine generators have been completed with the most recent generator going into service in July 2019. The hydraulic governors are also being upgraded to digital models in conjunction with the generator upgrades. The on-site construction is scheduled through June 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 2019-2020 is estimated at \$13.1 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 2028. The cost of the remaining turbine replacement, generator rehabilitation and governor upgrade for the construction period of 2019-2028 is estimated at \$307.4 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 refurbishment 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 undergoing paint system 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. Eleven 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. The current estimate for this seismic related modification is \$48.4 million (up from earlier estimates of \$30.0 to \$40.0 million). This project is included in the 2019-2022 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 \$100.0 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. The District is also reviewing the seismic performance of other water retaining structures (concrete, earth embankments, and spillway gates) at both Developments. At this time, the only significant modification expected will be to the Priest Rapids spillway, where anchoring of the spillway monoliths will be required. Budget for these changes is estimated at \$18.2 million. 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 was completed in mid-2019.

Estimated Capital Requirements

The District projects that the total cost of the capital program at the Priest Rapids Project during the period 2020 through 2024 will be approximately \$411.7 million, as shown in the table below. These capital projects are expected to be paid from available Priest Rapids Project revenue and proceeds of subordinate lien obligations of the Priest Rapids Project purchased by the Electric System (as an investment and funded with available Electric System revenues) deposited into the District’s Construction Fund and Finance Plan Fund. Improvements at the Priest Rapids Project are designed to ensure optimal performance of these large, long-lived assets and to comply with the License.

TABLE 22
PRIEST RAPIDS PROJECT
2020-2024 FORECAST CAPITAL PROGRAM EXPENDITURES (\$000)

Turbine/Generator	\$	175,593
Embankment/Powerhouse/Spillway		130,317
Labor		73,879
Technology		15,819
General ⁽¹⁾		16,102
Total	\$	411,710

⁽¹⁾ Includes buildings and property improvements, and project substation and switchyard improvements.

Operating Results

The following table shows actual operating results for the Priest Rapids Project for the fiscal years 2014 through 2018. Revenues from the Power Purchasers and the District’s Electric System are currently equal to the cost of power from the Priest Rapids Project. Such cost of power is a function of operating expenses, annual debt service and coverage requirements on the Priest Rapids Project parity bonds and reserve requirements imposed by the Priest Rapids Project bond resolutions and the Power Sales Contracts. The Power Sales Contracts established the costs to be included in the cost of power from the Priest Rapids Project. This table differs from the financial statements in Appendix B and is designed to show compliance with the debt service coverage requirements in the bond resolutions for the Priest Rapids Project bonds.

TABLE 23
PRIEST RAPIDS PROJECT OPERATING RESULTS
(\$000)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Operating Revenues					
Sales of Power ⁽¹⁾	\$ 167,588	\$ 156,587	\$ 148,397	\$ 168,172	\$ 167,845
Interest and Other Income ⁽²⁾	8,619	8,983	11,868	13,760	13,724
Total Revenues and Other Income	<u>\$ 176,207</u>	<u>\$ 165,570</u>	<u>\$ 160,265</u>	<u>\$ 181,932</u>	<u>\$ 181,569</u>
Operating Expenses					
Generation	\$ 25,126	\$ 26,603	\$ 28,419	\$ 30,496	\$ 30,390
Transmission	2,184	2,767	2,397	2,991	3,878
Administrative and General	17,521	22,934	21,341	27,175	24,166
License Compliance and Related Agreements	26,115	22,870	20,180	20,255	19,653
Taxes	1,587	1,902	1,943	1,947	1,966
Total Operating Expenses	<u>\$ 72,533</u>	<u>\$ 77,076</u>	<u>\$ 74,280</u>	<u>\$ 82,864</u>	<u>\$ 80,053</u>
Net Revenues Before Extraordinary Item	<u>\$ 103,674</u>	<u>\$ 88,494</u>	<u>\$ 85,985</u>	<u>\$ 99,068</u>	<u>\$ 101,516</u>
Extraordinary Loss – Fracture ⁽³⁾	\$ (17,947)	\$ (4,359)	\$ 9,896	--	--
Net Revenues after Extraordinary Item	85,727	84,135	95,881	\$ 99,068	\$ 101,516
Unused bond proceeds refunded	--	--	--	--	--
Excess Available in Supplemental R&R Fund	<u>\$ 12,619</u>	<u>\$ 12,935</u>	<u>\$ 13,951</u>	<u>\$ 14,603</u>	<u>\$ 14,692</u>
Remaining Net Revenues Available for Debt Service on Parity Bonds	<u>\$ 98,346</u>	<u>\$ 97,070</u>	<u>\$ 109,832</u>	<u>\$ 113,671</u>	<u>\$ 116,208</u>
Debt Service on Parity Bonds	\$ 85,561	\$ 84,412	\$ 95,481	\$ 98,771	\$ 101,158
Debt Service Coverage on Parity Bonds ⁽⁴⁾	1.15x	1.15x	1.15x	1.15x	1.15x
Net Energy Output (MWh) ⁽⁵⁾	7,755,280	8,677,766	9,193,106	9,041,481	9,258,927
Average Cost (\$/MWh) ⁽⁶⁾	\$21.61	\$18.04	\$16.14	\$18.60	\$18.13

(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) Non-capital repair costs and insurance recoveries related to the Wanapum fracture discovered in 2014. 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 105% of average in 2014, 95% of average in 2015, 96% of average in 2016, 126% of average in 2017 and 111% of average in 2018.

(6) Revenues from sales of power divided by net energy output. The fracture of the Wanapum Dam increased operating costs for 2014.

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

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

Debt Service Requirements for the Priest Rapids Project

The District has Outstanding Priest Rapids Project Bonds and Priest Rapids Project Subordinate Bonds in the aggregate principal amount of \$956,780,000 and \$321,260,000, respectively. See "INTRODUCTION." The District expects to issue simultaneously with the Bonds its 2020 Priest Rapids Project Bonds in the aggregate principal amount of \$127,115,000 to provide funds to be used, together with other available funds of the District, to defease and refund \$193,615,000 of the Outstanding Priest Rapids Project Bonds and to pay the costs of issuance of the 2020 Priest Rapids Project Bonds.

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

TABLE 24
PRIEST RAPIDS PROJECT PARITY BOND DEBT SERVICE REQUIREMENTS⁽¹⁾

Year ⁽¹⁾	Outstanding Priest Rapids Project Bonds Debt Service ⁽²⁾	2020 Priest Rapids Project Bonds		Total Debt Service ⁽³⁾
		Principal	Interest	
2020	\$ 74,677,330	--	\$ 1,461,168	\$ 76,138,498
2021	59,689,752	\$ 2,365,000	3,440,629	65,495,381
2022	55,858,316	2,050,000	3,402,209	61,310,525
2023	55,772,850	5,545,000	3,332,113	64,649,963
2024	51,378,470	5,980,000	3,222,998	60,581,468
2025	51,267,839	6,095,000	3,105,554	60,468,393
2026	51,183,098	6,220,000	2,979,058	60,382,156
2027	138,581,256 ⁽⁴⁾	6,350,000	2,841,572	147,772,828
2028	51,028,037	6,500,000	2,693,263	60,221,300
2029	50,821,287	6,650,000	2,535,247	60,006,534
2030	52,923,011	3,905,000	2,406,133	59,234,144
2031	51,892,396	4,005,000	2,305,124	58,202,520
2032	89,834,506 ⁽⁵⁾	4,110,000	2,196,438	96,140,944
2033	46,379,873	4,255,000	2,080,212	52,715,084
2034	44,419,395	4,370,000	1,957,599	50,746,994
2035	44,159,007	4,500,000	1,830,397	50,489,404
2036	42,966,719	4,290,000	1,696,787	48,953,506
2037	38,873,744	4,430,000	1,556,831	44,860,575
2038	38,604,417	4,565,000	1,412,461	44,581,878
2039	35,995,980	7,670,000	1,216,090	44,882,069
2040	123,641,475 ⁽⁶⁾	7,920,000	965,870	132,527,345
2041	14,935,750	8,175,000	703,458	23,814,208
2042	14,923,289	8,440,000	428,480	23,791,768
2043	14,904,331	8,725,000	144,399	23,773,729
2044	5,599,800	--	--	5,599,800
Total ⁽³⁾	\$ 1,300,311,926	\$127,115,000	\$ 49,914,086	\$ 1,477,341,013

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

(2) Table excludes the bonds to be refunded and defeased with proceeds of the 2020 Priest Rapids Project Bonds and other available funds of the District. Table excludes the Priest Rapids Project Subordinate Bonds. See Table 3.

(3) Totals may not add due to rounding.

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

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

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

LITIGATION

There is no litigation pending or threatened in any court (either state or federal) concerning the issuance or the validity of any Parity Bonds, or questioning the creation, organization, existence or title to office of the members of the Commission or officers of the District or the proceedings for the authorization, execution, sale and delivery of the

Bonds, or in any manner questioning the power and authority of the District to impose, prescribe or collect rates and charges for the services of the Priest Rapids Project or the Electric System.

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

INITIATIVE AND REFERENDUM

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

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

LIMITATIONS ON REMEDIES; BANKRUPTCY

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

In addition to the limitations on remedies contained in the Bond Resolution, the rights and obligations under the Bonds and the Bond Resolution may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinion to be delivered in connection with the issuance of the Bonds, including the opinion of Bond Counsel, will be subject to limitations regarding bankruptcy, insolvency and other laws relating to or affecting creditors' rights. See Appendix C. The various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified.

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

Furthermore, if the District were to become a debtor in a federal bankruptcy case, the parties (including the Registrar, the holders of the Bonds and any Bondowners' Trustee) may be prohibited from taking any action to collect any amount from the District, to enforce any obligations of the District, or to exercise any remedies unless the permission

of the bankruptcy court is obtained. The rate covenant may not be enforceable in bankruptcy by the holders of the Bonds. Legal proceedings to resolve issues could be time-consuming and expensive, and substantial delays and reductions in payments could result.

TAX MATTERS

Federal Income Taxes

The following is a summary of certain anticipated United States federal income tax consequences of the purchase, ownership and disposition of the Bonds. The summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), the Treasury Regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change. Such authorities may be repealed, revoked, or modified, possibly with retroactive effect, so as to result in United States federal income tax consequences different from those described below. The summary generally addresses Bonds held as capital assets within the meaning of Section 1221 of the Code and does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws, including but not limited to financial institutions, insurance companies, dealers in securities or currencies, persons holding such Bonds as a hedge against currency risks or as a position in a “straddle,” “hedge,” “constructive sale transaction” or “conversion transaction” for tax purposes, or persons whose functional currency is not the United States dollar. It also does not deal with holders other than original purchasers that acquire Bonds at their initial issue price except where otherwise specifically noted. Potential purchasers of the Bonds should consult their own tax advisors in determining the federal, state, local, foreign and other tax consequences to them of the purchase, holding and disposition of the Bonds.

The District has not sought and will not seek any rulings from the Internal Revenue Service (“IRS”) with respect to any matter discussed herein. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax characterizations and tax consequences set forth below.

U.S. Holders

As used herein, the term “U.S. Holder” means a beneficial owner of Bonds that is (a) an individual citizen or resident of the United States for federal income tax purposes, (b) a corporation, including an entity treated as a corporation for federal income tax purposes, created or organized in or under the laws of the United States or any State thereof (including the District of Columbia), (c) an estate whose income is subject to federal income taxation regardless of its source, or (d) a trust if a court within the United States can exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust. Notwithstanding clause (d) of the preceding sentence, to the extent provided in Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States persons prior to that date that elect to continue to be treated as United States persons also will be U.S. Holders. In addition, if a partnership (or other entity or arrangement treated as a partnership for federal income tax purposes) holds Bonds, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. If a U.S. Holder is a partner in a partnership (or other entity or arrangement treated as a partnership for federal income tax purposes) that holds Bonds, the U.S. Holder is urged to consult its own tax advisor regarding the specific tax consequences of the purchase, ownership and dispositions of the Bonds.

Taxation of Interest Generally

Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code and so will be fully subject to federal income taxation. Purchasers will be subject to federal income tax accounting rules affecting the timing and/or characterization of payments received with respect to such Bonds. In general, interest paid on the Bonds and recovery of any accrued original issue discount and market discount will be treated as ordinary income to a bondholder, and after adjustment for the foregoing, principal payments will be treated as a return of capital to the extent of the U.S. Holder’s adjusted tax basis in the Bonds and capital gain to the extent of any excess received over such basis.

Recognition of Income Generally

Section 451(b) of the Code provides that purchasers using an accrual method of accounting for U.S. federal income tax purposes may be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements of such purchaser. In this regard, the IRS issued proposed regulations which provide that, with the exception of certain fees, the rule in section 451(b) will generally not apply to the timing rules for original issue discount and market discount, or to the timing rules for de minimis original issue discount and market discount. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential applicability of these rules and their impact on the timing of the recognition of income related to the Bonds under the Code.

Original Issue Discount

The following summary is a general discussion of certain federal income tax consequences of the purchase, ownership and disposition of Bonds issued with original issue discount (“Discount Bonds”). A Bond will be treated as having been issued with an original issue discount if the excess of its “stated redemption price at maturity” (defined below) over its issue price (defined as the initial offering price to the public at which a substantial amount of the Bonds of the same maturity have first been sold to the public, excluding bond houses and brokers) equals or exceeds one quarter of one percent of such Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity (or, in the case of an installment obligation, its weighted average maturity).

A Bond’s “stated redemption price at maturity” is the total of all payments provided by the Bond that are not payments of “qualified stated interest.” Generally, the term “qualified stated interest” includes stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate or certain floating rates.

In general, the amount of original issue discount includible in income by the initial holder of a Discount Bond is the sum of the “daily portions” of original issue discount with respect to such Discount Bond for each day during the taxable year in which such holder held such Bond. The daily portion of original issue discount on any Discount Bond is determined by allocating to each day in any “accrual period” a ratable portion of the original issue discount allocable to that accrual period.

An accrual period may be of any length, and may vary in length over the term of a Discount Bond, provided that each accrual period is not longer than one year and each scheduled payment of principal or interest occurs at the end of an accrual period. The amount of original issue discount allocable to each accrual period is equal to the difference between (i) the product of the Discount Bond’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The “adjusted issue price” of a Discount Bond at the beginning of any accrual period is the sum of the issue price of the Discount Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Discount Bond that were not qualified stated interest payments. Under these rules, holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Holders utilizing the accrual method of accounting may generally, upon election, include in gross income all interest (including stated interest, acquisition discount, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) on a Bond by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

Holders that use an accrual method of accounting may be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements of such holder as discussed under “Recognition of Income Generally” above. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential applicability of this rule and its impact on the timing of the recognition of income related to the Bonds under the Code.

Market Discount

A holder who purchases a Bond at a price which includes market discount (i.e., at a purchase price that is less than its adjusted issue price in the hands of an original owner) in excess of a prescribed de minimis amount will be required to recharacterize all or a portion of the gain as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition. In particular, such holder will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a Bond as ordinary income to the extent of any remaining accrued market discount or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such holder on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

A holder of a Bond who acquires such Bond at a market discount also may be required to defer, until the maturity date of such Bond or the earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the holder paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a Bond in excess of the aggregate amount of interest (including original issue discount) includable in such holder's gross income for the taxable year with respect to such Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Bond for the days during the taxable year on which the holder held the Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the bondholder elects to include such market discount in income currently as described above.

Holders that use an accrual method of accounting may be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements of such holder as discussed under "Recognition of Income Generally" above. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential applicability of this rule and its impact on the timing of the recognition of income related to the Bonds under the Code.

Bond Premium

A holder of a Bond who purchases such Bond at a cost greater than its remaining redemption amount will have amortizable bond premium. If the holder elects to amortize this premium under Section 171 of the Code (which election will apply to all Bonds held by the holder on the first day of the taxable year to which the election applies and to all Bonds thereafter acquired by the holder), such a holder must amortize the premium using constant yield principles based on the holder's yield to maturity. Amortizable bond premium is generally treated as an offset to interest income, and a reduction in basis is required for amortizable bond premium that is applied to reduce interest payments. Purchasers of Bonds who acquire such Bonds at a premium should consult with their own tax advisors with respect to federal, state and local tax consequences of owning such Bonds.

Surtax on Unearned Income

Section 1411 of the Code generally imposes a tax of 3.8% on the "net investment income" of certain individuals, trusts and estates. Among other items, net investment income generally includes gross income from interest and net gain attributable to the disposition of certain property, less certain deductions. U.S. Holders should consult their own tax advisors regarding the possible implications of this provision in their particular circumstances.

Sale or Redemption of Bonds

A bondholder's adjusted tax basis for a Bond is the price such holder pays for the Bond plus the amount of original issue discount and market discount previously included in income and reduced on account of any payments received on such Bond other than "qualified stated interest" and any amortized bond premium. Gain or loss recognized on a sale, exchange or redemption of a Bond, measured by the difference between the amount realized and the bondholder's tax basis as so adjusted, will generally give rise to capital gain or loss if the Bond is held as a capital asset (except in the case of Bonds acquired at a market discount, in which case a portion of the gain will be characterized as interest and therefore ordinary income).

If the terms of a Bond are materially modified, in certain circumstances, a new debt obligation would be deemed "reissued", or created and exchanged for the prior obligation in a taxable transaction. Among the modifications which may be treated as material are those related to the redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral. In addition, the defeasance of a Bond under the defeasance provisions of the Bond Resolution could result in a deemed sale or exchange of such Bond.

EACH POTENTIAL HOLDER OF BONDS SHOULD CONSULT ITS OWN TAX ADVISOR CONCERNING (1) THE TREATMENT OF GAIN OR LOSS ON SALE, REDEMPTION OR DEFEASANCE OF THE BONDS, AND (2) THE CIRCUMSTANCES IN WHICH BONDS WOULD BE DEEMED REISSUED AND THE LIKELY EFFECTS, IF ANY, OF SUCH REISSUANCE.

Non-U.S. Holders

The following is a general discussion of certain United States federal income tax consequences resulting from the beneficial ownership of Bonds by a person other than a U.S. Holder, a former United States citizen or resident, or a partnership or entity treated as a partnership for United States federal income tax purposes (a "Non-U.S. Holder").

Subject to the discussion of backup withholding and the Foreign Account Tax Compliance Act ("FATCA"), payments of principal by the District or any of its agents (acting in its capacity as agent) to any Non-U.S. Holder will not be subject to federal withholding tax. In the case of payments of interest to any Non-U.S. Holder, however, federal withholding tax will apply unless the Non-U.S. Holder (1) does not own (actually or constructively) 10 percent or more of the voting equity interests of the District, (2) is not a controlled foreign corporation for United States tax purposes that is related to the District (directly or indirectly) through stock ownership, and (3) is not a bank receiving interest in the manner described in Section 881(c)(3)(A) of the Code. In addition, either (1) the Non-U.S. Holder must certify on the applicable IRS Form W-8 (series) (or successor form) to the District, its agents or paying agents or a broker under penalties of perjury that it is not a U.S. person and must provide its name and address, or (2) a securities clearing organization, bank or other financial institution, that holds customers' securities in the ordinary course of its trade or business and that also holds the Bonds must certify to the District or its agent under penalties of perjury that such statement on the applicable IRS Form W-8 (series) (or successor form) has been received from the Non-U.S. Holder by it or by another financial institution and must furnish the interest payor with a copy.

Interest payments may also be exempt from federal withholding tax depending on the terms of an existing Federal Income Tax Treaty, if any, in force between the U.S. and the resident country of the Non-U.S. Holder. The U.S. has entered into an income tax treaty with a limited number of countries. In addition, the terms of each treaty differ in their treatment of interest and original issue discount payments. Non-U.S. Holders are urged to consult their own tax advisor regarding the specific tax consequences of the receipt of interest payments, including original issue discount. A Non-U.S. Holder that does not qualify for exemption from withholding as described above must provide the District or its agent with documentation as to his, her, or its identity to avoid the U.S. backup withholding tax on the amount allocable to a Non-U.S. Holder. The documentation may require that the Non-U.S. Holder provide a U.S. tax identification number.

If a Non-U.S. Holder is engaged in a trade or business in the United States and interest on a Bond held by such holder is effectively connected with the conduct of such trade or business, the Non-U.S. Holder, although exempt from the withholding tax discussed above (provided that such holder timely furnishes the required certification to claim such exemption), may be subject to United States federal income tax on such interest in the same manner as if it were a U.S. Holder. In addition, if the Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax

equal to 30% (subject to a reduced rate under an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments. For purposes of the branch profits tax, interest on a Bond will be included in the earnings and profits of the holder if the interest is effectively connected with the conduct by the holder of a trade or business in the United States. Such a holder must provide the payor with a properly executed IRS Form W-8ECI (or successor form) to claim an exemption from United States federal withholding tax.

Generally, any capital gain realized on the sale, exchange, retirement or other disposition of a Bond by a Non-U.S. Holder will not be subject to United States federal income or withholding taxes if (1) the gain is not effectively connected with a United States trade or business of the Non-U.S. Holder, and (2) in the case of an individual, the Non-U.S. Holder is not present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition, and certain other conditions are met.

For newly issued or reissued obligations, such as the Bonds, FATCA imposes U.S. withholding tax on interest payments and, for dispositions after December 31, 2018, gross proceeds of the sale of the Bonds paid to certain foreign financial institutions (which is broadly defined for this purpose to generally include non-U.S. investment funds) and certain other non-U.S. entities if certain disclosure and due diligence requirements related to U.S. accounts or ownership are not satisfied, unless an exemption applies. An intergovernmental agreement between the United States and an applicable non-U.S. country may modify these requirements. In any event, bondholders or beneficial owners of the Bonds shall have no recourse against the District, nor will the District be obligated to pay any additional amounts to “gross up” payments to such persons, as a result of any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or government charges with respect to payments in respect of the Bonds. However, it should be noted that on December 13, 2018, the IRS issued Proposed Treasury Regulation Section 1.1473-1(a)(1) which proposes to remove gross proceeds from the definition of “withholdable payment” for this purpose.

Non-U.S. Holders should consult their own tax advisors with respect to the possible applicability of federal withholding and other taxes upon income realized in respect of the Bonds.

Information Reporting and Backup Withholding

For each calendar year in which the Bonds are outstanding, the District, its agents or paying agents or a broker is required to provide the IRS with certain information, including a holder’s name, address and taxpayer identification number (either the holder’s Social Security number or its employer identification number, as the case may be), the aggregate amount of principal and interest paid to that holder during the calendar year and the amount of tax withheld, if any. This obligation, however, does not apply with respect to certain U.S. Holders, including corporations, tax-exempt organizations, qualified pension and profit sharing trusts, and individual retirement accounts and annuities.

If a U.S. Holder subject to the reporting requirements described above fails to supply its correct taxpayer identification number in the manner required by applicable law or under-reports its tax liability, the District, its agents or paying agents or a broker may be required to make “backup” withholding of tax on each payment of interest or principal on the Bonds. This backup withholding is not an additional tax and may be credited against the U.S. Holder’s federal income tax liability, provided that the U.S. Holder furnishes the required information to the IRS.

Under current Treasury Regulations, backup withholding and information reporting will not apply to payments of interest made by the District, its agents (in their capacity as such) or paying agents or a broker to a Non-U.S. Holder if such holder has provided the required certification that it is not a U.S. person (as set forth in the second paragraph under “Non-U.S. Holders” above), or has otherwise established an exemption (provided that neither the District nor its agent has actual knowledge that the holder is a U.S. person or that the conditions of an exemption are not in fact satisfied).

Payments of the proceeds from the sale of a Bond to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) may apply to those payments if the broker is one of the following: (i) a U.S. person; (ii) a controlled foreign corporation for U.S. tax purposes; (iii) a foreign person 50-percent or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment was effectively connected with a United States trade or business; or (iv) a foreign partnership with certain connections to the United States.

Payment of the proceeds from a sale of a Bond to or through the United States office of a broker is subject to information reporting and backup withholding unless the holder or beneficial owner certifies as to its taxpayer identification number or otherwise establishes an exemption from information reporting and backup withholding.

The preceding federal income tax discussion is included for general information only and may not be applicable depending upon a holder's particular situation. Holders should consult their tax advisors with respect to the tax consequences to them of the purchase, ownership and disposition of the Bonds, including the tax consequences under federal, state, local, foreign and other tax laws and the possible effects of changes in those tax laws.

Changes in Law and Post Issuance Events

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

IN ALL EVENTS, ALL INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS.

CONSIDERATIONS FOR ERISA AND OTHER U.S. BENEFIT PLAN INVESTORS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to Title I of ERISA ("ERISA Plans"). Section 4975 of the Code imposes essentially the same prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) and 403(a) of the Code, which are exempt from tax under Section 501(a) of the Code, other than governmental and church plans as defined herein ("Qualified Retirement Plans"), and on Individual Retirement Accounts ("IRAs") described in Section 408(b) of the Code (collectively, "Tax-Favored Plans"). Certain employee benefit plans such as governmental plans (as defined in Section 3(32) of ERISA) ("Governmental Plans"), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA) ("Church Plans"), are not subject to ERISA requirements. Additionally, such Governmental and Church Plans are not subject to the requirements of Section 4975 of the Code but may be subject to applicable federal, state or local law ("Similar Laws") which is, to a material extent, similar to the foregoing provisions of ERISA or the Code. Accordingly, assets of such plans may be invested in the Bonds without regard to the ERISA and Code considerations described below, subject to the provisions of Similar Laws.

In addition to the imposition of general fiduciary obligations, including those of investment prudence and diversification and the requirement that a plan's investment be made in accordance with the documents governing the plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, "Benefit Plans") and persons who have certain specified relationships to the Benefit Plans ("Parties In Interest" or "Disqualified Persons"), unless a statutory or administrative exemption is available. The definitions of "Party in Interest" and "Disqualified Person" are expansive. While other entities may be encompassed by these definitions, they include, most notably: (1) fiduciary with respect to a plan; (2) a person providing services to a plan; (3) an employer or employee organization any of whose employees or members are covered by the plan; and (4) the owner of an IRA. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory or administrative exemption is available. Without an exemption an IRA owner may disqualify his or her IRA.

Certain transactions involving the purchase, holding or transfer of the Bonds might be deemed to constitute prohibited transactions under ERISA and Section 4975 of the Code if assets of the District were deemed to be assets of a Benefit

Plan. Under final regulations issued by the United States Department of Labor (the “Plan Assets Regulation”), the assets of the District would be treated as plan assets of a Benefit Plan for the purposes of ERISA and Section 4975 only of the Code if the Benefit Plan acquires an “equity interest” in the District and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there can be no assurances in this regard, it appears that the Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation. This determination is based upon the traditional debt features of the Bonds, including the reasonable expectation of purchasers of Bonds that the Bonds will be repaid when due, traditional default remedies, as well as the absence of conversion rights, warrants and other typical equity features. The debt treatment of the Bonds for ERISA purposes could change subsequent to issuance of the Bonds. In the event of a withdrawal or downgrade to below investment grade of the rating of the Bonds or a characterization of the Bonds as other than indebtedness under applicable local law, the subsequent purchase of the Bonds or any interest therein by a Benefit Plan is prohibited.

However, without regard to whether the Bonds are treated as an equity interest for such purposes, though, the acquisition or holding of Bonds by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the District or the Issuing and Paying Agent, or any of their respective affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan.

Most notably, ERISA and the Code generally prohibit the lending of money or other extension of credit between an ERISA Plan or Tax-Favored Plan and a Party in Interest or a Disqualified Person, and the acquisition of any of the Bonds by a Benefit Plan would involve the lending of money or extension of credit by the Benefit Plan. In such a case, however, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Bond. Included among these exemptions are: Prohibited Transaction Class Exemption (“PTCE”) 96-23, regarding transactions effected by certain “in-house asset managers”; PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by “insurance company general accounts”; PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by “qualified professional asset managers.” Further, the statutory exemption in Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provides for an exemption for transactions involving “adequate consideration” with persons who are Parties in Interest or Disqualified Persons solely by reason of their (or their affiliate’s) status as a service provider to the Benefit Plan involved and none of whom is a fiduciary with respect to the Benefit Plan assets involved (or an affiliate of such a fiduciary). There can be no assurance that any class or other exemption will be available with respect to any particular transaction involving the Bonds, or that, if available, the exemption would cover all possible prohibited transactions.

By acquiring a Bond (or interest therein), each purchaser and transferee (and if the purchaser or transferee is a plan, its fiduciary) is deemed to (a) represent and warrant that either (i) it is not acquiring the Bond (or interest therein) with the assets of a Benefit Plan, Governmental plan or Church plan; or (ii) the acquisition and holding of the Bond (or interest therein) will not give rise to a nonexempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or Similar Laws, and (b) acknowledge and agree that a Benefit Plan may not purchase the Bonds (or any interest therein) at any time that the ratings on the Bonds are withdrawn or downgraded to below investment grade or the Bonds have been characterized as other than indebtedness for applicable local law purposes. A purchaser or transferee who acquires Bonds with assets of a Benefit Plan represents that such purchaser or transferee has considered the fiduciary requirements of ERISA, the Code or Similar Laws and has consulted with counsel with regard to the purchase or transfer.

In addition, each purchaser and each transferee (and if the purchaser or transferee is a Benefit Plan, its fiduciary) of a Bond that is a Benefit Plan is deemed to represent and warrant that: (a) the decision to acquire the Bonds was made by the plan fiduciary; (b) the plan fiduciary is independent of the District and Underwriters; (c) the plan fiduciary meets the requirements of 29 C.F.R. § 2510.3 21(c)(1) and specifically is either a bank as defined in Section 202 of the Investment Advisers Act of 1940 or similar institution that is regulated and supervised and subject to periodic examination by a U.S. state or U.S. federal agency; an insurance carrier which is qualified under the laws of more than one U.S. state to perform the services of managing, acquiring or disposing of assets of a Benefit Plan; an investment adviser registered under the Investment Advisers Act of 1940 or, if not registered as an investment adviser under the Investment Advisers Act by reason of paragraph (1) of Section 203A of the Investment Advisers Act, is registered as an investment adviser under the laws of the U.S. state in which it maintains its principal office and place

of business; a broker dealer registered under the Exchange Act; or holds, or has under its management or control, total assets of at least \$50 million (provided that this clause shall not be satisfied if the plan fiduciary is an individual directing his or her own individual plan account or is a relative of such individual); (d) the plan fiduciary is capable of evaluating investment risks independently, both in general and with regard to particular transactions, and investment strategies, including the purchase or transfer of the Bonds; (e) the plan fiduciary is a “fiduciary” with respect to the plan within the meaning of Section (21) of ERISA, Section 4975 of the Code, or both, and is responsible for exercising independent judgment in evaluating the acquisition, transfer or holding of the Bonds; (f) none of the District or Underwriters has exercised any authority to cause the Benefit Plan to invest in the Bonds or to negotiate the terms of the Benefit Plan’s investment in the Bonds; and (g) the plan fiduciary has been informed: (1) that none of the District or Underwriters are undertaking to provide impartial investment advice or to give advice in a fiduciary capacity in connection with the plan’s acquisition or transfer of the Bonds and (2) of the existence and nature of the District’s or Underwriters’ financial interests in the Benefit Plan’s acquisition or transfer of the Bonds.

None of the District or Underwriters is undertaking to provide impartial investment advice or to give advice in a fiduciary capacity in connection with the acquisition or transfer of the Bonds by any Benefit Plan.

Because the District, Underwriters or any of their respective affiliates may receive certain benefits in connection with the sale of the Bonds, the purchase of the Bonds using plan assets of a Benefit Plan over which any of such parties has investment authority or provides investment advice for a direct or indirect fee may be deemed to be a violation of the prohibited transaction rules of ERISA or Section 4975 of the Code or Similar Laws for which no exemption may be available. Accordingly, any investor considering a purchase of Bonds using plan assets of a Benefit Plan should consult with its counsel if the District or the Underwriters or any of their respective affiliates has investment authority or provides investment advice for a direct or indirect fee with respect to such assets or is an employer maintaining or contributing to the Benefit Plan.

Any ERISA Plan fiduciary considering whether to purchase the Bonds on behalf of an ERISA Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans should seek similar counsel with respect to the prohibited transaction provisions of the Code and the applicability of Similar Laws.

CERTAIN LEGAL MATTERS

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

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

Certain legal matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington. Any opinion of such counsel will be limited in scope, addressed solely to the Underwriters, and cannot be relied upon by investors.

CONFLICTS OF INTEREST

Some or all of the fees of the Underwriters, Underwriters’ Counsel, the Municipal Advisor, the Registrar, Special Tax Counsel, Disclosure Counsel, and Bond Counsel are contingent on the issuance and sale of the Bonds. None of the members of the Commission or other officers of the District have interests in the issuance of the Bonds that are

prohibited by applicable law. Bond Counsel and Special Tax Counsel currently and periodically serve as underwriter's counsel to each of the Underwriters on non-District related issues.

CONTINUING DISCLOSURE

Undertaking of the District. Pursuant to a certificate to be executed by the District in connection with the issuance and delivery of the Bonds ("Continuing Disclosure Certificate"), the District will covenant for the benefit of the owners and the "Beneficial Owners" (as defined in the Continuing Disclosure Certificate) of the Bonds to provide certain financial information and operating data relating to the District not later than nine months after the end of each of the District's fiscal years (presently, December 31), commencing with the report for the fiscal year ended December 31, 2019 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the Bonds. The Annual Report will be filed by or on behalf of the District with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system. The specific nature of the information to be contained in the Annual Report and the notices of events are set forth in the proposed form of the Continuing Disclosure Certificate in Appendix F. The District's covenant will be made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12 (the "Rule"). The District is aware of the requirements under the Rule, including the amendments to the Rule that became effective on February 27, 2019, and is in the process of revising its continuing disclosure procedures to address such requirements.

Prior Continuing Disclosure Undertakings of the District. The District has previously entered into continuing disclosure undertakings under the Rule. The District filed its 2018 annual financial statements and certain operating information in September 2019 (in a timely manner), but did not link these filings to the CUSIPs for the District's 2017-N Bonds and 2017-O Bonds. The linkage oversight was corrected in December 2019. In addition, the District failed to file timely notice of a June 2019 rating upgrade from S&P Global Ratings with respect to the then-outstanding Electric System revenue bonds. Notice of such rating increase was filed in December 2019.

RATINGS

As noted on the cover page of this Official Statement, S&P Global Ratings ("S&P"), Moody's Investors Service ("Moody's"), and Fitch Ratings Inc. ("Fitch") have assigned their ratings of "AA+", "Aa3" and "AA," respectively, to the Bonds. An explanation of the significance of such ratings may be obtained from the rating agencies. The District has furnished to each rating agency certain information and materials with respect to the Bonds. Generally, rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions made by the rating agencies. There is no assurance that the ratings assigned to the Bonds will continue for any given period of time or that 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

KeyBanc Capital Markets Inc. (the "Representative"), on its own behalf and on behalf of J.P. Morgan Securities LLC ("Senior Co-Manager") and Citigroup Global Markets Inc. and RBC Capital Markets LLC (the "Co-Managers," and together with the Representative and the Senior Co-Manager, the "Underwriters") have agreed, subject to certain conditions, to purchase the Bonds from the District at the price of \$74,690,844.39, representing the aggregate principal amount of the Bonds less an underwriter's discount of \$284,155.61. The Underwriters' obligations are subject to certain conditions precedent, and they 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 Underwriters. The Underwriters may offer and sell the Bonds into unit investment trusts or money market funds, certain of which may be managed or sponsored by the Underwriters, at prices lower than the public offering prices.

The Underwriters 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 Underwriters. After the initial public offering, the public offering prices may be varied from time to time.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

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

RBC Capital Markets LLC and the other Underwriters have provided the following information for inclusion in this Official Statement: The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriters and their respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriters and their respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District. The Underwriters and their respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

MUNICIPAL ADVISOR

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

MISCELLANEOUS

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

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

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT
COUNTY, WASHINGTON

By /s/ Bonnie Overfield
Designated Representative

APPENDIX A

COPY OF THE BOND RESOLUTION

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ELECTRIC SYSTEM REVENUE REFUNDING BONDS 2020
BOND RESOLUTION

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON

RESOLUTION NO. 8933

A RESOLUTION OF THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON, PROVIDING FOR THE ISSUANCE OF ONE OR MORE SERIES OF ELECTRIC SYSTEM REVENUE REFUNDING BONDS OF THE DISTRICT IN THE AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$200,000,000 FOR THE PURPOSE OF DEFEASING AND REFUNDING CERTAIN OUTSTANDING ELECTRIC SYSTEM BONDS; AND DELEGATING AUTHORITY TO APPROVE THE FINAL TERMS OF THE BONDS.

PASSED December 10, 2019

PREPARED BY:

PACIFICA LAW GROUP LLP
Seattle, Washington

I-V

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RESOLUTION NO. 8933

A RESOLUTION OF THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON, PROVIDING FOR THE ISSUANCE OF ONE OR MORE SERIES OF ELECTRIC SYSTEM REVENUE REFUNDING BONDS OF THE DISTRICT IN THE AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$200,000,000 FOR THE PURPOSE OF DEFEASING AND REFUNDING CERTAIN OUTSTANDING ELECTRIC SYSTEM BONDS; AND DELEGATING AUTHORITY TO APPROVE THE FINAL TERMS OF THE BONDS.

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

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

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

WHEREAS, the District finds that the Outstanding Parity Bonds listed in Appendix A attached hereto (the "Refunding Candidates") may be defeased and refunded with proceeds of electric system revenue refunding bonds and available funds of the District at an overall debt service savings to the District and its ratepayers; and

WHEREAS, the Commission of the District (the "Commission") deems it in the best interest of the District to issue one or more series of electric system revenue refunding bonds in the aggregate principal amount of not to exceed \$200,000,000 (the "Bonds") to be used, with available funds of the District, to defease and redeem all or a portion of the Refunding Candidates (as described herein, the "Refunded Bonds") and to pay costs of issuing the Bonds; and

WHEREAS, the Commission wishes to delegate authority to the General Manager, Chief Financial Officer, and Treasurer of the District (each, a "Designated Representative") for a limited time, to select the Refunding Candidates to be refunded and to approve the interest rates, maturity dates, redemption terms, principal maturities and other terms for each series of Bonds within the parameters set by this resolution; and

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

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

ARTICLE I
DEFINITIONS

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

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

- (a) the interest due in such Fiscal Year on all outstanding Parity Bonds, excluding interest to be paid from the proceeds of the sale of Parity Bonds; and
- (b) the principal of all outstanding Serial Bonds due in such Fiscal Year; and
- (c) the Sinking Fund Requirement, if any, for such Fiscal Year; and
- (d) any regularly scheduled District Payments, adjusted by any regularly scheduled Reciprocal Payments, during such Fiscal Year.

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

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

“Acquired Obligations” means the Government Obligations acquired by the District under the terms of this resolution and the Escrow Agreement to effect the defeasance and refunding of the Refunded Bonds.

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

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

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

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

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

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

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

“Bonds” mean the Electric System Revenue Refunding Bonds, Series 2020 of the District issued pursuant to this resolution.

“Call Date” means the dates specified in the Escrow Agreement(s) for the refunding of the Refunded Bonds.

“Closing Memorandum” means the closing memorandum prepared by the Underwriter and approved by the Designated Representative and delivered on the date of issuance of the Bonds.

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

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

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

“Derivative Facility” means a letter of credit, an insurance policy, a surety bond or other credit enhancement device, given, issued or posted as security for the District’s obligations under one or more Derivative Products.

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

“Derivative Product” means a written contract or agreement between the District and the Reciprocal Payor that has (or whose obligations are unconditionally guaranteed by a party that has) as of the date of the Derivative Product at least an investment grade rating from a rating agency, which provides that the District’s obligations thereunder will be conditioned on the performance by the Reciprocal Payor of its obligations under the agreement; and

(a) under which the District is obligated to pay, on one or more scheduled and specified Derivative Payment Dates, the District Payments in exchange for the Reciprocal Payor’s obligation to pay or to cause to be paid to the District, on scheduled and specified Derivative Payment Dates, the Reciprocal Payments;

(b) for which the District’s obligations to make District Payments may be secured by a pledge of and lien on the Gross Revenue on an equal and ratable basis with the 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.

“Designated Representative” means the General Manager, Chief Financial Officer, and Treasurer of the District, and any successor to the functions of such offices. The signature of one Designated Representative shall be sufficient to bind the District.

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

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

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

“Electric System” means the electric utility and telecommunications properties, rights and assets, real and personal, tangible and intangible, now owned and operated by the District and used or useful in the generation, transmission, distribution and sale of electric energy, telecommunication services, and the business incidental thereto, and all properties, rights and assets, real and personal, tangible and intangible, hereafter constructed or acquired by the District as additions, betterments, improvements or extensions to said electric utility and telecommunications properties, rights and assets, including, but not limited to, the contract interest of the District in the P.E.C. Headworks Powerplant Project and in the Quincy Chute Project, but shall not include the Priest Rapids Project or any additions thereto, or any other generating, conservation, transmission or distribution facilities which 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 herein or such indebtedness shall be refunded with bonds issued in accordance with this resolution.

“Escrow Agent” means the escrow agent selected by the Designated Representative to perform the duties described herein and under the Escrow Agreement with respect to the Refunded Bonds.

“Escrow Agreement” means one or more Escrow Deposit Agreements between the District and the Escrow Agent, executed pursuant to this resolution.

“Event or Events of Default” means those events described as Events of Default in this resolution.

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

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

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

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

“Junior Lien Bonds” means the 2017-M Junior Lien Bond and the 2019 Junior Lien Bond, and any debt issued on a parity of lien on Gross Revenue of the Electric System with such bonds.

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

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

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

"MSRB" means the Municipal Securities Rulemaking Board or any successors to its functions.

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

"Official Statement" means one or more final official statements delivered in connection with the sale of the Bonds.

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

"Outstanding Parity Bond Resolutions" mean the resolutions authorizing the Outstanding Parity Bonds, as applicable.

"Outstanding Parity Bonds" mean the outstanding 2013 Bonds, 2017-N Bonds, and the 2017-O Bonds.

"Parity Bond Reserve Funds" mean the 2013 Reserve Fund, the 2017-N Reserve Fund, the 2017-O Reserve Fund, the reserve fund(s) created to secure the payment of principal of and interest on the Bonds, if any, and any reserve funds created to secure the payment of principal of and interest on any Future Parity Bonds.

"Parity Bonds" mean the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds.

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

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

"Preliminary Official Statement" means one or more preliminary official statements prepared and delivered in connection with the negotiated sale, issuance and delivery of the Bonds.

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

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

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

"Qualified Insurance" means any noncancelable municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies), which insurance company or companies, as of the time of issuance of such policy or surety bond, are rated in one of the two highest rating categories by Moody's Investors Service or S&P Global Ratings or their comparably recognized business successors.

"Qualified Letter of Credit" means any irrevocable letter of credit issued by a financial institution for the account of the District on behalf of the owners of any Parity Bonds, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is rated in one of the two highest rating categories by Moody's Investors Service or S&P Global Ratings or their comparably recognized business successors.

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

"Rate Stabilization Account" means the account within the R&C Fund.

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

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

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

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

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

“Refunding Candidates” mean the Outstanding Parity Bonds listed in Appendix A attached hereto.

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

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

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

“Reserve Fund Requirement” means initially with respect to the Bonds, the amount determined by a Designated Representative, which shall 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 such reserve fund.

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

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

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

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

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

“Revenue Fund” means the revenue fund of the District created by Section 6 of Resolution No. 75 of the District.

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

“SEC” means the Securities and Exchange Commission.

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

“Sinking Fund Requirement” means, for any Fiscal Year, the principal amount and premium, if any, of Term Bonds required to be purchased, redeemed or paid at maturity in such Fiscal Year as established by the resolution of the District authorizing the issuance of such Term Bonds.

“State” means the state of Washington.

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

“Tax Certificate” means the tax certificate executed by a Designated Representative pertaining to the Tax-Exempt Bonds.

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

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

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

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

“Underwriter” means the underwriter or underwriters as selected by a Designated Representative pursuant to this resolution.

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

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

“Wanapum Development” means the second stage of the Priest Rapids Hydroelectric Project (F.P.C. (or FERC) Project No. 2114), as more fully described in Section 2.2 of Resolution

No. 474 adopted by the Commission on June 30, 1959, or as the same may be modified in accordance with Section 2.3 of Resolution No. 474, but shall not include any generation, transmission and distribution facilities hereafter constructed or acquired by the District as a part of the Electric System, or any other utility properties of the District acquired as a separate utility system, the revenues of which may be pledged to the payment of bonds issued to purchase, construct or otherwise acquire such separate utility system.

“**2013 Bonds**” means the Electric System Revenue Refunding Bonds, Series 2013-J authorized by Resolution No. 8682.

“**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.

“**2017-M Junior Lien Bond**” means the Electric System Revenue Bond, Series 2017-M authorized by Resolution No. 8855.

“**2017-N Bonds**” means the Electric System Revenue Refunding Bonds, Series 2017-N (Mandatory Put Bonds) authorized by Resolution No. 8862.

“**2017-N Reserve Fund**” means the debt service reserve account, which secures the payment of the principal of and interest on the 2017-N 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.

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

“**2017-O Reserve Fund**” means the debt service reserve account, which secures the payment of the principal of and interest on the 2017-O 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.

“**2019 Junior Lien Bond**” means the Electric System Revenue Refunding Bond, Series 2019-P authorized by Resolution No. 8914.

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

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

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

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

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

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

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

ARTICLE II
FINDINGS

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

(a) The Bonds are being issued for the purpose of providing funds to refund, for debt service savings and/or restructuring the debt service obligations for the Refunded Bonds, certain Outstanding Parity Bonds;

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

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

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

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

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

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

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

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

ARTICLE III AUTHORIZATION, ISSUANCE AND REDEMPTION OF BONDS

Section 3.1 Authorization of Issuance and Sale of the Bonds. For the purposes of defeasing to maturity and/or defeasing and refunding the Refunded Bonds and paying costs of issuance of the Bonds, the District is hereby authorized to issue and sell one or more series of its Electric System revenue refunding bonds in the aggregate principal amount of not to exceed \$200,000,000 (the "Bonds").

Each series of the Bonds shall be designated as the "Electric System Revenue Refunding Bonds, 2020," with additional series designation, designation regarding tax status, or other designation as set forth in the Bond Purchase Contract and approved by a Designated Representative.

The Bonds of each series shall be dated as of the date of initial delivery, shall be fully registered as to both principal and interest, shall be in the denomination of \$5,000 each or any integral multiple thereof within a series and maturity, shall be numbered separately in the manner and with any additional designation as the Registrar deems necessary for purposes of identification and control, and shall bear interest payable on the dates set forth in the Bond Purchase Contract. The Bonds shall bear interest at the rates set forth in the Bond Purchase Contract, and shall mature on the dates and in the principal amounts set forth in the Bond Purchase Contract and as approved by a Designated Representative pursuant to Section 11.1 of this resolution.

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

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

Section 3.3 Redemption of Bonds.

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

in the Bond Purchase Contract approved by a Designated Representative pursuant to Section 11.1 of this resolution.

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

(c) *Notice of Redemption.*

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

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

- (i) the redemption date,
- (ii) the redemption price,

(iii) if fewer than all outstanding Bonds are to be redeemed, the identification by series and maturity (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed,

(iv) that unless conditional notice of redemption has been given and such conditions have not been satisfied or waived or such notice has been rescinded, on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and if the Registrar then holds sufficient funds to pay such Bonds at the redemption price, interest thereon shall cease to accrue from and after said date,

- (v) any conditions to redemption, and

(vi) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the designated corporate office of the Registrar.

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

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

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

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

ARTICLE IV REGISTRATION, FORM AND GENERAL TERMS

Section 4.1 Registrar Exchanges and Transfers.

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

(b) *Registered Ownership.* The District and the Registrar, each in its discretion, may deem and treat the Registered Owner of each Bond as the absolute owner thereof for all purposes (except as otherwise provided in this resolution or in the Continuing Disclosure Certificate of the District), and neither the District nor the Registrar shall be affected by any notice to the contrary. Payment of any such Bond shall be made only as described in subsection (h) below, but such Bond may be transferred as herein provided. All such payments made as described in herein shall be valid and shall satisfy and discharge the liability of the District upon such Bond to the extent of the amount or amounts so paid.

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

(d) Use of Depository.

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

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

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

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

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

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

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

(h) *Place and Medium of Payment.* Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be calculated on the basis of a year of 360 days and twelve 30-day months. For so long as all Bonds are in book-entry form, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of DTC referred to in the Letter of Representations. In the event that the Bonds are no longer held in book-entry form, interest on the Bonds shall be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the Record Date, or upon the written request of a Registered Owner of more than \$1,000,000 of Bonds (received by the Registrar at least 10 days prior to the applicable payment date), such payment shall be made by the Registrar by wire transfer to the account within the continental United States designated by the Registered Owner. Principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the designated corporate office of the Registrar.

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

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

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

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

ARTICLE V SPECIAL FUNDS AND DEFEASANCE

Section 5.1 Revenue Fund. The District covenants and agrees that so long as any of the Parity Bonds are outstanding and unpaid it will continue to pay into the Revenue Fund all Gross Revenue, exclusive of earnings on money on hand in any arbitrage rebate account or any bond fund

(including the Bond Fund), the R&C Fund, or the Parity Bond Reserve Funds, which may be retained in such funds and account or transferred to other funds as required by this resolution or other bond resolution.

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

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

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

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

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

(5) to make all payments required to be made into any special fund or account created to pay or secure the payment of the principal of and interest on any 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 Bonds.

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

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

Section 5.2 Bond Fund: Reserve Fund.

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

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

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

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

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

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

(b) *Reserve Fund.* If determined by a Designated Representative pursuant to this resolution and set forth in a Bond Purchase Contract, a special fund of the District, known as the "2020-__ Electric System Debt Service Reserve Fund," may be created and shall secure the payment of the principal of and interest on the Bonds, and, at the District's option, if set forth in the resolution authorizing any Future Parity Bonds, may secure the payment of the principal of and interest on some or all of such Future Parity Bonds.

The District hereby covenants and agrees that it will fund such reserve fund, to the extent such reserve fund is required to be funded. The Reserve Fund Requirement may also, at the District's option, be recalculated as of the date of the defeasance of any Parity Bonds pursuant to this resolution. Notwithstanding the provisions of this subsection, any resolution providing for the issuance of Parity Bonds may provide (or the Commission may provide by resolution at any other time) for the District to obtain Qualified Insurance or a Qualified Letter of Credit for specific amounts required pursuant to this section to be paid out of the reserve fund. The face amount of any such Qualified Insurance or Qualified Letter of Credit shall be credited against the amounts required to be maintained in the reserve fund by this section to the extent that such payments and credits to be made are insured by an insurance

company, or guaranteed by a letter of credit from a financial institution. Such Qualified Letter of Credit or Qualified Insurance shall not be cancelable on less than five years notice. In the event of any cancellation, the reserve fund shall be funded in accordance with the provisions of this section providing for payment to the reserve fund in the event of a deficiency therein.

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

If the valuation of the amount in the reserve fund shall be less than the Reserve Fund Requirement in effect on the date of valuation, the District shall credit to such reserve fund on or before the 25th day of each of the six succeeding calendar months one-sixth of the amount necessary to make the valuation of the amount in the reserve fund equal to 100% of the Reserve Fund Requirement. If the valuation of the amount in the 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 reserve fund (i) the interest earned on the amounts credited to the reserve fund, and (ii) the difference, if any, between the amount in the reserve fund and the Reserve Fund Requirement.

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

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

Any reduction in the Parity Bond Reserve Fund by reason of any such withdrawal shall be made up from money in the Revenue Fund first available after making the current specified payments into the Bond Fund and after paying and making necessary provision for the payment of Operating Expenses. If a deficiency still exists immediately prior to an interest payment date and after the withdrawal of cash, the District shall then draw from any Qualified Letter of Credit, Qualified Insurance, or other credit enhancement instrument. Such draw shall be made at such times and under such conditions as the agreement for such Qualified Letter of Credit or such Qualified Insurance shall provide. The District shall pay any reimbursement obligation as a result of a draw under a Qualified

Letter of Credit or Qualified Insurance from the Revenue Fund. The District shall deposit Gross Revenue into the Revenue Fund sufficient to meet such reimbursement obligation and all other obligations of the Revenue Fund.

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

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

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

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

Section 5.4 Rate Stabilization Account. In accordance with the priorities set forth in Section 5.1, the District may from time to time deposit Net Revenue into the Rate Stabilization Account in the R&C Fund and may from time to time withdraw amounts therefrom to enhance rate stability or for other lawful purposes of the District related to the Electric System. Solely for purposes of calculating the coverage requirement set forth in Section 7.2, there shall be added to the Net Revenue in any year any amount withdrawn from the Rate Stabilization Account in such calendar year and deposited in the Revenue Fund, and there shall be subtracted from Net Revenue in any year any amount withdrawn from the Revenue Fund and deposited in the Rate Stabilization Account. Money in the R&C Fund may, at the option of the District, be invested and reinvested as permitted by law.

ARTICLE VI APPLICATION OF BOND PROCEEDS; PLAN OF REFUNDING

Section 6.1 Application of Bond Proceeds; Plan of Refunding.

(a) *Reserve Fund.* If and to the extent a reserve fund is established to secure payment of the principal of and interest on the Bonds as provided in Section 5.2(b) of this resolution, the District is hereby authorized to deposit available funds of the District and/or a portion of the proceeds of the

Bonds, and/or purchase Qualified Insurance or a Qualified Letter of Credit and pay the associated policy premium, to satisfy the Reserve Fund Requirement at the time of issuance of the Bonds.

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

A portion of the proceeds of the Bonds, together with other available funds of the District, shall be deposited with the Escrow Agent pursuant to the Escrow Agreement to be used immediately upon receipt thereof to defease the Refunded Bonds as authorized by the Bond Resolution(s) authorizing the Refunded Bonds, and to pay costs of issuance of the Bonds as set forth in the Closing Memorandum for the Bonds. The net proceeds deposited with the Escrow Agent shall be used to defease the Refunded Bonds and discharge the obligations thereon by the purchase of certain Acquired Obligations bearing such interest and maturing as to principal and interest in such amounts and at such times which, together with any necessary beginning cash balance, will provide for the payment of:

(1) interest on the Refunded Bonds as such becomes due on and prior to the applicable maturity date or Call Date; and

(2) the redemption price (100 percent of the principal amount) of the Refunded Bonds on the applicable maturity date or Call Date.

Such Acquired Obligations shall be purchased at a yield not greater than the yield permitted by the Code and regulations relating to acquired obligations in connection with refunding bond issues.

A beginning cash balance, if any, and the Acquired Obligations shall be deposited irrevocably with the Escrow Agent in an amount sufficient to defease the Refunded Bonds. In order to carry out the purposes of this Section 6.1, the Designated Representatives are each hereby authorized and directed to execute and deliver to the Escrow Agent, the Escrow Agreement.

The District hereby sets aside sufficient funds out of the purchase of Acquired Obligations from proceeds of the Bonds to make the payments described above.

The District hereby calls the Refunded Bonds for redemption on the Call Date in accordance with the provisions of the bond resolution(s) authorizing the Refunded Bonds authorizing the redemption and retirement of the Refunded Bonds prior to their fixed maturities.

Said defeasance and call for redemption of the Refunded Bonds shall be irrevocable after the issuance of the Bonds and delivery of the Acquired Obligations to the Escrow Agent.

The Escrow Agent is hereby authorized and directed to provide for the giving of notices of the defeasance and redemption of the Refunded Bonds in accordance with the applicable provisions of the bond resolution(s) authorizing the Refunded Bonds. The costs of publication of such notices shall be an expense of the District.

The Escrow Agent is hereby authorized and directed to pay to the District, or, at the direction of the District, to the paying agent for the Refunded Bonds, sums sufficient to pay, when due, the

payments specified in this Section 6.1. All such sums shall be paid from the moneys and Acquired Obligations deposited with the Escrow Agent, and the income therefrom and proceeds thereof. All moneys and Acquired Obligations deposited with the Escrow Agent and any income therefrom shall be held, invested (but only at the direction of the Designated Representative) and applied in accordance with the provisions of this resolution and with the laws of the State for the benefit of the District and owners of the Refunded Bonds.

The District will take such actions as are found necessary to see that all necessary and proper fees, compensation and expenses of the Escrow Agent for the Refunded Bonds shall be paid when due.

ARTICLE VII COVENANTS TO SECURE BONDS

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

All Parity Bonds and Parity Lien Obligations now or hereafter outstanding shall be equally and ratably payable and secured hereunder without priority by reason of date of adoption of the resolution providing for their issuance or by reason of their series, number or date of sale, issuance, execution or delivery, or by the liens, pledges, charges, trusts, assignments and covenants made herein, except as otherwise expressly provided or permitted in this resolution and except as to insurance which may be obtained by the District to insure the repayment of one or more series or maturities within a series.

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

Parity Bonds shall not in any manner or to any extent constitute general obligations of the District or of the State, or any political subdivision of the State, or a charge upon any general fund or

upon any money or other property of the District or of the State, or of any political subdivision of the State, not specifically pledged thereto by this resolution.

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

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

(b) Such rates or charges shall be sufficient to provide Net Revenue, taking into account any transfers to or from the R&C Fund pursuant to this resolution, in any Fiscal Year hereafter in an amount equal to at least 1.25 times the Annual Debt Service in such Fiscal Year, excluding any capitalized interest thereon in said Fiscal Year.

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

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

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

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

generally accepted accounting principles or otherwise, then an event of default relating to this coverage requirement shall not be considered an Event of Default if the coverage requirement ratio would have been complied with had the District continued to use those accounting principles employed at the date of the most recent audited financial statements prior to the date of this resolution.

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

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

(1) The District may sell, lease or otherwise dispose of all or substantially all of the Electric System, provided that simultaneously with such sale, lease or other disposition, the District shall cause all of the Bonds to be, or deemed to be, no longer outstanding.

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

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

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

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

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

The District may sell or otherwise dispose of any part of the Electric System which shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Electric System, or no longer necessary, material to or useful in such operation. The proceeds of any such sale or

disposition pursuant to this paragraph shall be paid into the Bond Fund for credit to the Parity Bond Reserve Funds on a pro rata basis to the extent of any deficiency in such reserve funds, and the balance of such proceeds, if any, shall be deposited in the Revenue Fund.

(e) *Insurance.* The District will keep the works, plants, properties and facilities comprising the Electric System insured, and will carry such other insurance, with responsible insurers, with policies payable to the District, against risks, accidents or casualties, at least to the extent that insurance is usually carried by municipal corporations operating like properties; provided, however, that the District may, if deemed necessary and advisable by the Commission, institute or continue a self-insurance program with respect to any or all of the aforementioned risks.

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

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

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

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

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

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

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

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

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

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

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

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

(iii) To include the additional Net Revenue which would have been received by the District if any rate change adopted prior to the delivery of the Future Parity Bonds, but

subsequent to the beginning of the 12-month period being considered, had been in force during the full 12-month period.

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

(4) That the resolution authorizing the issuance of the Future Parity Bonds shall contain covenants and provisions substantially the same as Sections 5.1, 5.2 and 5.4, 7.1 through 7.5, 8.1 through 8.9, and 9.1 through 9.7 hereof.

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

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

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

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

(3) There shall have been filed with the Secretary of the Commission a report of the Professional Utility Consultant stating that estimated annual Net Revenue for the second full Fiscal Year after the date of initial operation of the facilities, costs of which are to be financed as a Resource Obligation, or after the date of first delivery of energy, capacity, reserves or services pursuant to a contract, costs of which are declared to be a Resource Obligation, as the case may be, shall be at least equal to 125% of maximum Annual Debt Service in any future Fiscal Year. In estimating Net Revenue, the Professional Utility Consultant shall base such estimate on factors the Professional Utility Consultant deems to be reasonable and shall treat the costs of the Resource Obligation as Operating Expenses.

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

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

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

(e) *Reimbursement Obligations.*

(1) In the event that the District elects to meet the requirements with respect to a Parity Bond Reserve Fund 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.

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

Section 7.4 Restrictions on Contracting of Obligations Secured by Revenue.

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

(b) The District may issue bonds, notes, warrants or other obligations payable from and secured by a lien on the Gross Revenue and funds of the Electric System that is subordinate to the lien on such Gross Revenue of the Parity Bonds and may create a special fund or funds for payment of such

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

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

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

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

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

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

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

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

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

Section 7.6 Tax Covenants.

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

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

ARTICLE VIII
DEFAULTS AND REMEDIES

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

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

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

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

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

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

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

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

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

Section 8.2 Bondowners' Trustee. So long as such Event of Default has not been remedied, a bondowners' trustee (the "Bondowners' Trustee") may be appointed by the Registered Owners of 25% in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners of the Parity Bonds or by their attorneys-in-fact duly authorized and delivered to such Bondowners' Trustee, notification thereof being given to the District. That appointment shall become effective immediately upon acceptance thereof by the Bondowners' Trustee. Any Bondowners' Trustee appointed under the provisions of this Section 8.2 shall be a bank or trust company organized under the laws of the State or the State of New York or a national banking association. The bank or trust company acting as Bondowners' Trustee may be removed at any time, and a successor Bondowners' Trustee may be appointed, by the Registered Owners of a majority in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners of the Parity Bonds or by their attorneys-in-fact duly authorized. The Bondowners' Trustee may require such security and indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in the performance of its duties.

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

Owners of the Parity Bonds shall be restored to the same rights and position which they would have held if no Event of Default had occurred.

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

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

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

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

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

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

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

Section 8.5 Duties and Obligation of Bondowners' Trustee. The Bondowners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. During an Event of Default, the Bondowners' Trustee shall exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bondowners' Trustee shall have no liability for any act or omission to act hereunder except for the Bondowners' Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bondowners' Trustee shall be determined solely by the express provisions of this resolution, and no implied powers, duties or obligations of the Bondowners' Trustee shall be read into this resolution.

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

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

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

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

- (a) an Event of Default has happened and is continuing; and
- (b) a Bondowners' Trustee has been appointed; and
- (c) such 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; and
- (d) the Registered Owners of 25% in principal amount of the Parity Bonds, after the occurrence of such Event of Default, has made written request of the Bondowners' Trustee and have afforded the Bondowners' Trustee a reasonable opportunity to institute such suit, action or proceeding; and

(e) there have been offered to the Bondowners' Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and

(f) the Bondowners' Trustee has refused or neglected to comply with such request within a reasonable time.

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

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

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

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

ARTICLE IX AMENDMENTS

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

The foregoing shall not be construed as limiting the District to such proof, it being intended that the District may accept any other evidence of the matters herein stated which it may deem sufficient. Any request or consent of the owner of any Parity Bond shall bind every future owner of

the same Parity Bond in respect of anything done by the District in pursuance of such request, direction or consent.

Section 9.2 Vote Required to Amend Resolution. Any amendment to the provisions of this resolution, may be made by a Supplemental Resolution of the District and with written consent, as hereinafter provided in Section 9.3, of the Registered Owners of not less than 66-2/3% in principal amount of the Parity Bonds outstanding; provided, however, that no such amendment shall (a) extend the date of payment of the principal of any Parity Bond or of any installment of interest thereon or reduce the principal or redemption price thereof or the rate of interest thereon or advance the date upon which any Parity Bond may first be called for redemption prior to its fixed maturity date; (b) give to any Parity Bond or Bonds any preference over any other Parity Bond or Bonds secured equally and ratably therewith; (c) reduce the aforesaid percentage of Parity Bonds, the Registered Owners of which are required to consent to any such resolution amending the provisions of this resolution; or (d) authorize the creation of any pledge prior to or, except as provided in this resolution for the issuance of Future Parity Bonds, on a parity with the pledge afforded by this resolution, without the consent of the Registered Owner of each such Parity Bond affected thereby.

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

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

Section 9.5 Parity Bonds Owned by District. Parity Bonds owned or held by or for the account of the District shall not be deemed outstanding for the purpose of any vote or consent or other action or any calculation of outstanding Parity Bonds in this resolution provided for, and shall not be entitled to vote or consent or take any other action in this resolution provided for.

Section 9.6 Endorsement of Amendment on Parity Bonds. Parity Bonds delivered after the effective date of any action amending this resolution taken as hereinabove provided may bear a notation by endorsement or otherwise as to such action, and in that case, upon demand of the Registered Owner of any Parity Bond outstanding at such effective date and presentation of his or her Parity Bond for the purpose at the designated corporate office of the Registrar, suitable notation shall be made on such Parity Bond by the Registrar as to any such action. If the District shall so determine, new Parity Bonds so modified as in the opinion of the District and its counsel to conform to such action shall be prepared, delivered and, upon demand of the Registered Owner of any Parity Bond then outstanding, shall be exchanged without cost to such owner for Parity Bonds then outstanding hereunder, upon surrender of such Parity Bonds.

Section 9.7 Amendments by District.

(a) Notwithstanding the preceding provisions of this Article IX, or the provisions of Section 7.3(a)(4), the District from time to time and at any time may adopt a Supplemental Resolution or resolutions, which resolution or resolutions thereafter shall become a part of this resolution, for any one or more or all of the following purposes:

(1) To add to the covenants and agreements of the District contained in this resolution, other covenants and agreements thereafter to be observed, which shall not adversely affect the interest of the Registered Owners of any Parity Bonds or Future Parity Bonds in any material way, or to surrender any right or power herein reserved to or conferred upon the District.

(2) To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provisions contained in this resolution or any resolution authorizing Future Parity Bonds in regard to matters or questions arising under such resolutions as the District may deem necessary or desirable and which shall not adversely affect the interest of the owners of such bonds in any material respect.

(3) To modify any of the provisions of this resolution in any other respect, if such modification does not adversely affect any Registered Owner in any material respect.

Any such Supplemental Resolution of the District may be adopted without the consent of the Registered Owners of any Parity Bonds or Parity Lien Obligations at any time outstanding.

(b) Upon the adoption of any Supplemental Resolution pursuant to the provisions of this section, this resolution shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the District under this resolution and all Registered Owners of Parity Bonds outstanding hereunder shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modification and amendments, and all the terms and conditions of any such Supplemental Resolution shall be deemed to be part of the terms and conditions of this resolution for any and all purposes.

ARTICLE X
ONGOING DISCLOSURE

Section 10.1 Undertaking to Provide Ongoing Disclosure. The District covenants to execute and deliver at the time of issuance of a series of Bonds a Continuing Disclosure Certificate. The Designated Representative are each hereby authorized and directed to execute and deliver a Continuing Disclosure Certificate upon the issuance, delivery and sale of a series of Bonds with such terms and provisions as such officer shall deem appropriate and in the best interests of the District, upon consultation with Bond Counsel.

ARTICLE XI
SALE OF THE BONDS

Section 11.1 Sale of the Bonds. The Commission has determined that it would be in the best interest of the District to delegate to the Designated Representatives for a limited time the authority to determine whether to issue the Bonds from time to time in one or more series, whether a series of Bonds shall be issued as Taxable Bonds or Tax-Exempt Bonds, to select the Refunded Bonds, whether the Bonds are secured by a separate reserve fund or by a reserve fund established for a series of Outstanding Parity Bonds, and to approve the final interest rates, aggregate principal amount, principal amounts of each maturity, and redemption rights for each series of Bonds. The final determination of the terms for each series of Bonds shall be set forth in a Bond Purchase Contract to be signed by a Designated Representative.

The Designated Representatives are each hereby authorized to determine whether to issue the Bonds in one or more series, to select the Refunded Bonds, to designate the tax status of a series, to determine whether the Bonds are secured by a separate reserve fund or by a reserve fund established for a series of Outstanding Parity Bonds, and to approve the final interest rates, aggregate principal amount, principal amounts of each maturity, and redemption rights for each series of Bonds in the manner provided hereafter so long as:

- (a) the aggregate principal amount of the Bonds issued under this resolution does not exceed \$200,000,000,
- (b) the final maturity date for the series of Bonds is no later than January 1, 2047,
- (c) the Bonds of the series are sold (in the aggregate) at a price not less than 90%,
- (d) the true interest cost for the series of Bonds (in the aggregate) does not exceed 4.5%,
- (e) the series of Bonds are sold for a price that results in a minimum aggregate net present value debt service savings over all of the Refunded Bonds to be refunded with the proceeds of such series of at least 3.0%; and
- (f) the series of Bonds conform to all other terms of this resolution.

The Bonds shall be sold by negotiated sale to the Underwriter selected by a Designated Representative. Subject to the terms and conditions set forth in this Section 11.1, the Designated Representatives are each hereby authorized to execute one or more Bond Purchase Contracts.

Following the sale of the Bonds and the execution of a Bond Purchase Contract, a Designated Representative shall provide a report to the Commission describing the final terms of the Bonds approved pursuant to the authority delegated in this section. The authority granted to the Designated Representatives by this Section 11.1 shall expire December 31, 2020. If the Bonds authorized herein have not been sold by December 31, 2020, the Bonds shall not be issued nor their sale approved unless such Bonds shall have been re-authorized by resolution of the Commission. The resolution re-authorizing the issuance and sale of such Bonds may be in the form of a new resolution repealing this resolution in whole or in part or may be in the form of an amendatory resolution approving a bond purchase contract or establishing terms and conditions for the authority delegated under this Section 11.1.

Section 11.2 Preliminary and Final Official Statements.

(a) *Preliminary Official Statement.* The District hereby approves and authorizes the distribution of the Preliminary Official Statement. The Preliminary Official Statement shall be delivered to the Underwriter with such changes therein as shall be deemed appropriate and in the best interests of the District by one or more Designated Representatives, such action to be conclusively evidenced by the delivery of the Preliminary Official Statement to the Underwriter.

The Underwriter is hereby authorized to distribute the Preliminary Official Statement in connection with the offer and sale of the Bonds. Prior to the distribution of the Preliminary Official Statement, the Designated Representatives are each hereby authorized, empowered and directed to deem the Preliminary Official Statement final for purposes of the Rule, such action to be conclusively evidenced by delivery of the Preliminary Official Statement to the Underwriter.

(b) *Official Statement.* The Designated Representatives are each hereby authorized, empowered and directed to execute and deliver the Official Statement with such changes therein from the Preliminary Official Statement as such officer shall deem appropriate and in the best interests of the District, as conclusively evidenced by his or her execution thereof. The Underwriter is hereby authorized to distribute the Official Statement in connection with the offer and sale of the Bonds.

ARTICLE XII
MISCELLANEOUS

Section 12.1 Resolution a Contract. This resolution and the provisions of Title 54 RCW shall constitute a contract with the Registered Owners of each of the Bonds, enforceable by any Registered Owner of any Bond by mandamus or any other appropriate suit or action in any court of competent jurisdiction subject to the provisions of limitations on remedies contained in this resolution.

Section 12.2 Benefits of Resolution Limited to District Bondowners, Registrar, and Bondowners' Trustee. Nothing in this resolution, expressed or implied, is intended or shall be construed to confer upon or give to any person or corporation other than the District, the Registrar, the Bondowners' Trustee and the Registered Owners from time to time of the Bonds any rights, remedies or claims under or by reason of this resolution or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in this resolution contained by or on behalf of the District shall be for the sole and exclusive benefit of the District, the Registrar, the Bondowners' Trustee and the Registered Owners from time to time of the Bonds.

Section 12.3 Severability. If any one or more of the covenants or agreements provided in this resolution on the part of the District to be performed shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements shall be null and void and shall be deemed separable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of this resolution or of the Bonds issued hereunder.

Section 12.4 General Authorization. The General Manager of the District, the Chief Financial Officer, the Treasurer of the District, and the President, Vice President and Secretary of the Commission and each of the other appropriate officers of the District are each hereby authorized and directed to take such steps, to do such other acts and things, and to execute such letters, certificates, agreements, papers, financing statements, assignments or instruments as in their judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this resolution. Such documents may include, but are not limited to, documents related to Qualified Insurance and/or a municipal bond insurance policy delivered by an insurer to insure the payment when due of the principal of and interest on all or a portion of a series of Bonds as provided therein, if such insurance is determined by a Designated Representative to be in the best interest of the District.

Section 12.5 Prior Acts. All acts taken pursuant to the authority of this resolution but prior to its effective date are hereby ratified and confirmed.

Section 12.6 Effective Date. This resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED this 10th day of December, 2019.

PUBLIC UTILITY DISTRICT NO. 2 OF
GRANT COUNTY, WASHINGTON

By _____
President and Commissioner

Commissioner

Commissioner

Commissioner

Commissioner

Secretary of the Commission

**APPENDIX A:
Refunding Candidates**

- Electric System Revenue Refunding Bonds, Series 2013-J
- Electric System Revenue and Refunding Bonds, Series 2017-0

**APPENDIX B:
Bond Form**

Each series of Bonds shall be in substantially the following form, with additions and deletions as permitted by the Resolution.

NO. _____ \$ _____

UNITED STATES OF AMERICA
STATE OF WASHINGTON

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON
ELECTRIC SYSTEM REVENUE REFUNDING BOND, SERIES 2020-___ [(TAXABLE)]

INTEREST RATE: % MATURITY DATE: CUSIP NO.:

REGISTERED OWNER:

PRINCIPAL AMOUNT:

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, a municipal corporation of the state of Washington (the "District"), hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest from the date of delivery, or the most recent date to which interest has been paid or duly provided for, until payment of this bond at the Interest Rate set forth above, payable on _____, and semiannually thereafter on the first days of each succeeding _____ and _____. Both principal of and interest on this bond are payable in lawful money of the United States of America. For so long as the bonds of this issue are held in book-entry form, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of The Depository Trust Company ("DTC") referred to in the Blanket Issuer Letter of Representations from the District to DTC.

Principal of and interest and premium, if any, on this bond are payable solely out of the special fund of the District known as the "Electric System Revenue Bond Fund" (the "Bond Fund"). This bond is not a general obligation of the District.

This bond is one of a duly authorized series of bonds aggregating [\$ _____] in principal amount and designated as "Electric System Revenue Refunding Bonds, Series 2020- [_____] [(Taxable)]." This bond and the bonds of the series of which it is a part (the "Series 2020- [_____] Bonds") are issued under and pursuant to Resolution No. _____ of the District adopted on December 10, 2019 (the "Bond Resolution"), and under the authority of and in full compliance with the Constitution and laws of the state of Washington, including Title 54 of the Revised Code of Washington. The Bonds are issued for the purpose of defeasing and refunding certain outstanding revenue bonds of the District, and paying costs of issuance for the Bonds. Terms not otherwise defined herein shall have the meanings set forth in the Bond Resolution.

The Bonds are being issued on a parity of lien on Gross Revenue of the Electric System with the District's Outstanding Parity Bonds, subject only to the prior payment of Operating Expenses. The

District has reserved the right in the Bond Resolution to issue additional bonds ("Future Parity Bonds") and certain Parity Lien Obligations on a parity with the Bonds and the Outstanding Parity Bonds. The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are referred to herein as the "Parity Bonds."

Under the Bond Resolution, the District is obligated to set aside and pay into the Bond Fund out of the Gross Revenue of the Electric System, certain fixed amounts sufficient to pay the principal of and interest and premium, if any, on all Parity Bonds as the same become due and payable, all as is more fully provided in the Bond Resolution.

Copies of the Bond Resolution are on file at the office of the District, and reference thereto, and to any and all modifications and amendments thereof, is hereby made for a more complete description of the Gross Revenue available for the payment of the principal of, premium, if any, and interest on the Bonds and the rights and remedies of the registered owners of the Bonds with respect thereto, the terms and conditions upon which the Bonds have been issued, and the terms and conditions upon which this bond shall no longer be secured by the Bond Resolution or deemed to be outstanding thereunder if money or certain specified securities sufficient for the payment of this bond shall have been set aside in a special account and held in trust for the payment thereof.

In and by the Bond Resolution, the District covenants to establish, maintain and collect rates or charges for electric energy sold through the ownership or operation of the Electric System and all other services, facilities and commodities sold, furnished or supplied by the District in connection with the ownership or operation of the Electric System that shall be fair and nondiscriminatory and reasonably anticipated to provide Gross Revenue sufficient for the payment of the Parity Bonds, and any other indebtedness of the Electric System, and all payments that the District is obligated to set aside in the Bond Fund and for the proper operation and maintenance of the Electric System, all necessary repairs thereto and replacements and renewals thereof and all other costs of the Electric System.

This bond is subject to redemption prior to maturity as provided in the Bond Resolution and Bond Purchase Contract.

This Bond shall be transferable by the Registered Owner at the designated corporate office of the Registrar upon surrender and cancellation of this Bond, and thereupon a new registered Bond of the same principal amount and interest rate and maturity will be issued to the transferee as provided in the Bond Resolution. The District, the Registrar, and any other person may treat the person in whose name this Bond is registered as the absolute owner hereof for the purpose of receiving payment hereof and for all purposes.

This Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication hereon shall have been manually signed by the Registrar.

It is hereby certified, recited and declared that all acts, conditions and things essential to the validity of this bond and the Bonds of this series, required by the Constitution and statutes of the state of Washington do exist, have happened and have been performed.

IN WITNESS WHEREOF, Public Utility District No. 2 of Grant County, Washington, by its Commission, has caused this Bond to be executed in its name with the manual or facsimile signature

of the President of its Commission, and attested by the manual or facsimile signature of the Secretary of the Commission and the seal of said District to be impressed or imprinted hereon, all as of the ____ day of _____, 2020.

PUBLIC UTILITY DISTRICT NO. 2 OF
GRANT COUNTY, WASHINGTON

(SEAL)

President of the Commission

Attest:

Secretary of the Commission

CERTIFICATE OF AUTHENTICATION

Date of Authentication: _____

This Bond is one of the revenue bonds described in the within mentioned Bond Resolution and is one of the Electric System Revenue Refunding Bonds, Series 2020-[] [(Taxable)], of Public Utility District No. 2 of Grant County, Washington.

WASHINGTON STATE FISCAL AGENCY,
Registrar

By _____
Authorized Signer

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APPENDIX B

FINANCIAL STATEMENTS OF THE DISTRICT

The District's audited financial statements for fiscal years ending December 31, 2017 and 2018 have been included in its 2018 Annual Report (the "Report"). The audited financial statements set forth in this Appendix B have been extracted from such Report for inclusion in this Official Statement. The entire Report, which is not incorporated herein by this reference, is available at <https://emma.msrb.org/ER1257685-ER982732-ER1384580.pdf>.

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Utility District No. 2 of Grant County, Washington (the District), which comprise the statement of net position as of December 31, 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the year 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Financial Statements

The financial statements of the Public Utility District No. 2 of Grant County, Washington as of and for the year ended December 31, 2017, were audited by other auditors whose report dated April 27, 2018, expressed an unmodified opinion on those statements.

Other Matter

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Moss Adams LLP
Seattle, Washington
April 9, 2019

Management’s Discussion and Analysis (Unaudited)
Years ended December 31, 2018 and 2017

OVERVIEW OF DISTRICT’S FINANCIAL STATEMENTS

As of December 31, 2018, Public Utility District No. 2 of Grant County, Washington (the “District”) is comprised 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 authorizing both the Priest Rapids Hydroelectric Production Development (“Priest Rapids”) and Wanapum Hydroelectric Production Development (“Wanapum”) to operate through April of 2052 as long as license requirements continue to be met. Priest Rapids consists of a dam and hydroelectric generating station with a nameplate rating of 953 megaWatts (“MW”) and Wanapum consists of a dam and hydroelectric generating station with a nameplate rating of 1,204 MW. Priest Rapids is located on the Columbia River in Grant and Yakima Counties about 150 air miles northeast of the City of Portland, 130 air miles southeast of the City of Seattle, and 18 miles downstream of Wanapum, which spans Grant and Kittitas Counties. The Electric System maintains 4,351 transmission and distribution line miles and other related infrastructure to serve retail load in Grant County.

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 retail revenues 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.

The following discussion provides an overview of the financial activities for the District for the years ended December 31, 2018, 2017, and 2016. This discussion and analysis is designed to be used in conjunction with the financial statements, notes and other supplementary information, which follow this section.

FINANCIAL HIGHLIGHTS

The District produced a positive change in net financial position of \$89.9 million, \$76.2 million, and \$82.2 million during 2018, 2017, and 2016, respectively. The District continued to meet its financial targets and make the necessary investments in infrastructure, technology and employees to make sure that customers will continue to receive reliable power at long term low prices. Additionally, the Commission approved the continued build out of the wholesale fiber network, which will provide connectivity to residents and businesses throughout the county that is critical to remaining competitive and keeping pace with the Information Age.

Management's Discussion and Analysis (Unaudited) **Years ended December 31, 2018 and 2017**

In January of 2016, April of 2017, and April of 2018, the Commission implemented 2.0% average annual price increases to retail customers. These increases are driven by strategic major capital investments and increasing operating costs.

Electric System Significant Capital Projects: In 2013, Washington State enacted legislation that gave public entities a "Progressive Design-Build" procurement option that has proven flexible and efficient, producing work with outstanding quality and an excellent record of safety. The District took advantage of this legislation for seven planned substation rebuilds and started work in June 2016. The substations were Nelson Road, Coulee City, Babcock, Winchester, Peninsula, Cloud View, and Quincy Plains. The benefits included a project timeline much shorter than a traditional Design-Bid-Build procurement, improved electric system reliability, and the ability for the District to serve new large customer load growth in the central county area.

In February 2017, the Central Ephrata Substation was damaged and added to the original substation project for a total of eight substation builds. All eight substations were completed by October 2017. The total cost of the entire project including design, construction, District supplied material, and District labor was \$44.6 million.

The District is scheduled to complete its installation and migration to smart meters in September of 2019. The Advanced Metering Infrastructure (AMI) project includes the digital meters, communication networks and software required to enable communication between the meters and the District's billing system. As of December 31, 2018 the project was 90% complete at a cost of \$15.0 million.

The Priest Rapids Project Significant Capital Projects: The District has continued its long-term capital improvement plan at the Wanapum Development to upgrade all ten turbines and generators. The ten turbines were upgraded at an average cost of approximately \$22.8 million per turbine, with the last one placed in service in October of 2013. The new turbines have increased power output and efficiency and have improved water quality and fish passage within the Wanapum Development's project area. On-site construction for the generators began in June of 2010 and is scheduled through September of 2020. The existing generators were rated at 109.3 megavolt-amperes ("MVA"). The new upgraded generators have a nameplate rating of 128.6 MVA, an increase of 17.7%. As of December 31, 2018, nine of the ten generators have been replaced at a total cost of \$218.4 million (average of \$24.3 million per generator). The tenth generator outage is expected to begin in mid-2019 and end in mid-2020.

In August of 2016, on-site construction began for the turbine life extension and generator rewind work at the Priest Rapids Development and the first of ten turbines and generators were placed in service in January of 2018. Work began on the second unit (turbine and generator) in February of 2018 and is scheduled to return to service in March of 2019. The third unit upgrade is scheduled to begin in April 2019. Total cost to date of \$150.1 million includes all of the turbine modeling and hydraulic design work and other preliminary costs for all units, completion of the first unit and costs for the second unit upgrade currently in progress.

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. A new 55-site RV campground, marina, fuel float, boat launch, parking area, walking trail, and day use area including playground equipment and sports courts, were completed in spring of 2017. A second boat launch and parking area were completed in spring of 2018 and upgrades to the water and wastewater systems are scheduled to be complete in early 2019. The total cost through December 31, 2018 was \$40.9 million.

In 2018, the District did not issue new debt and largely financed the capital expenditures with excess revenues and bond proceeds received in prior periods. The District maintains very high credit ratings of AA, AA and Aa3 by Fitch

Management’s Discussion and Analysis (Unaudited)
Years ended December 31, 2018 and 2017

Ratings, Standard and Poor’s Rating Services, and Moody’s Investor Services. Each rating agency issued reports at the time of the last public issuance in November of 2017 (refer to Note 5).

FINANCIAL RATINGS			
Credit grade	MOODY’S	FITCH	S&P
HIGHEST	Aaa	AAA	AAA
VERY HIGH	Aa1, Aa2, Aa3	AA+, AA, AA-	AA+, AA, AA-
HIGH	A1, A2, A3	A+, A, A-	A+, A, A-
GOOD	Baa1, Baa2, Baa3, Baa4	BBB+, BBB, BB-	BBB+, BBB, BB-
SPECULATIVE	Ba1, Ba2, Ba3	BB+, BB, BB-	BB+, BB, BB-
VERY SPECULATIVE	B1, B2, B3	B+, B, B-	B+, B, B-
SUBSTANTIAL RISK	Caa1, Caa2, Caa3, Ca	CCC, CC, C, RD, D	CCC+, CCC, CCC-, CC, C, D

These very high grade credit ratings allow the District to acquire funding for capital investments at competitive interest rates. This reduces pressure on production costs at the Priest Rapids Project and ultimately helps keep the Electric System’s retail prices among the lowest in the nation. During the year ended December 31, 2018, the Priest Rapids Project provided 9,258,927 net megawatt hours (“MWh”) of electric energy at an average cost of \$18.03 per MWh. During the year ended December 31, 2017, the Priest Rapids Project provided 9,041,481 net MWh of electric energy at an average cost of \$18.60 per MWh. During the year ended December 31, 2016, the Priest Rapids Project provided 9,193,102 net MWh of electric energy at an average cost of \$16.14 per MWh. The timing of runoff and spill requirements factor into the water available for generation from year to year. Water supply at Grand Coulee Dam compared to a 50 year average was 111%, 126%, and 96% of for the 2018, 2017, and 2016 water years (October to September), respectively.

Another contributing factor to the District’s financial success are the Electric System’s wholesale contracts. These contracts increase revenue stability and improve the predictability of net wholesale revenues by mitigating the effect of fluctuation of wholesale power prices and water variability for generation.

Slice Agreements: The District has entered into various “slice” sales from its retained 63.3% share. The agreements sell the capacity and energy to buyers who assume the associated water and wholesale price risks. The District obtains stable revenue from the sale. The District has entered into consecutive agreements with Avangrid Renewables, LLC (“Avangrid”) for a 10% slice of PRP. The most recent agreement was signed in December of 2018 with a three year term beginning on January 1, 2019. Slice agreements are paid in equal monthly installments over the term of each agreement. The District regularly monitors its exposure with Avangrid 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 the Priest Rapids Project physical output (the “Pooling Agreement”) with Shell Energy North America (U.S.), L.P. (“SENA”) in September of 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

Management's Discussion and Analysis (Unaudited)
Years ended December 31, 2018 and 2017

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 53.3% of the capacity and associated energy of the Priest Rapids Project through September 29, 2020. The Pooling Agreement greatly reduces the effect that variable water conditions at the Priest Rapids Project and fluctuations in wholesale power prices have 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. Under the agreement, SENA 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. These payments are presented as a net sale or purchase. 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. The District has not experienced significant monthly true-up payments under the agreement. 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.

Management's Discussion and Analysis (Unaudited)
Years ended December 31, 2018 and 2017

CONDENSED COMPARATIVE FINANCIAL INFORMATION
(AMOUNTS IN THOUSANDS)

Statements of Net Position	2018	2017*	2016
Assets			
Current	\$ 311,863	\$ 224,660	\$ 222,395
Utility plant, net	2,097,261	2,045,370	1,953,628
Noncurrent	287,558	398,402	410,306
Total assets	<u>2,696,682</u>	<u>2,668,432</u>	<u>2,586,329</u>
Deferred outflows of resources - pensions	5,753	6,582	8,428
Deferred outflows of resources - unamortized losses on refundings	4,374	5,554	5,367
Total assets and deferred outflows of resources	<u>\$ 2,706,809</u>	<u>\$ 2,680,568</u>	<u>\$ 2,600,124</u>
Liabilities			
Current	\$ 138,751	\$ 154,217	\$ 151,088
Noncurrent	1,394,632	1,447,745	1,450,355
Total liabilities	<u>1,533,383</u>	<u>1,601,962</u>	<u>1,601,443</u>
Deferred inflows of resources - pensions	13,693	8,725	926
Total liabilities and deferred inflows of resources	<u>1,547,076</u>	<u>1,610,687</u>	<u>1,602,369</u>
Net position			
Net investment in capital assets	749,689	761,891	638,520
Restricted	303,885	288,064	287,425
Unrestricted	106,159	19,926	71,810
Total net position	<u>1,159,733</u>	<u>1,069,881</u>	<u>997,755</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 2,706,809</u>	<u>\$ 2,680,568</u>	<u>\$ 2,600,124</u>
Revenues and Expenses and Changes in Net Position	2018	2017*	2016
Operating revenues			
Retail energy sales	\$ 201,391	\$ 188,472	\$ 175,798
Wholesale revenues, net	67,186	54,753	62,521
Sales to power purchasers at cost	31,610	41,789	40,001
Other	11,083	8,895	7,996
Total operating revenues	<u>311,270</u>	<u>293,909</u>	<u>286,316</u>
Operating Expenses			
Depreciation and amortization	73,234	66,206	61,956
Other operating expenses	129,473	132,584	125,618
Total operating expenses	<u>202,707</u>	<u>198,790</u>	<u>187,574</u>
Net Operating Income	<u>108,563</u>	<u>95,119</u>	<u>98,742</u>
Other revenues (expenses)	(31,196)	(29,608)	(31,017)
Contributions in aid of construction	12,485	10,649	4,603
Extraordinary loss - Wanapum fracture	-	-	9,896
Change in net position	<u>\$ 89,852</u>	<u>\$ 76,160</u>	<u>\$ 82,224</u>
Total net position - beginning of year	<u>\$ 1,069,881</u>	<u>\$ 993,721</u>	<u>\$ 915,531</u>
Total net position - end of year	<u>\$ 1,159,733</u>	<u>\$ 1,069,881</u>	<u>\$ 997,755</u>

* The District's 2017 Statements of Net Position and Statements of Revenues and Expenses and Changes in Net Position were restated for the impacts of the required retroactive implementation of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which became effective for the District in 2018.

Management's Discussion and Analysis (Unaudited)
Years ended December 31, 2018 and 2017

FINANCIAL ANALYSIS

The following discussion provides comparative financial information for the years ended December 31, 2018, 2017, and 2016.

ASSETS AND DEFERRED OUTFLOWS

Total assets and deferred outflows have increased by \$26.2 million (1%) from 2017 to 2018 and \$80.4 million (3%) from 2016 to 2017. This is driven by the continued investments in the turbines and generators at Wanapum and Priest Rapids, and other capital improvements in both systems, which increases Utility plant, net. These investments align with the District's Strategic Plan objectives, which include reliably delivering power at long term low prices to customers.

Deferred outflows of resources related to pensions were \$5.8 million, \$6.6 million and \$8.4 million as of December 31, 2018, 2017 and 2016, respectively. Deferred outflows of resources related to pensions fluctuate due to the District recording its proportionate share of the increase or decrease in collective deferred outflows each year for the PERS plans as provided by the Department of Retirement Systems, partially offset by associated amortization.

LIABILITIES AND DEFERRED INFLOWS

Total liabilities and deferred inflows have decreased by \$63.6 million (4%) from 2017 to 2018 and increased by \$8.3 million (1%) from 2016 to 2017. The decrease from 2017 to 2018 is driven by a \$31.6 million principal payment of outstanding debt and no new debt issuances in 2018, a \$13.7 million (30%) decrease in pension obligations and a \$12.0 million (35%) decrease in trade accounts payable. The increase from 2016 to 2017 is largely driven by the \$4.0 million increase in accrued other post employment benefits associated with the adoption of GASB 75 (refer to Note 1 for further information), a \$6.9 million increase in unearned revenue associated with a large customer contribution in aid of construction. The District's pension obligations are driven by its proportionate share in the changes in the actuarial valuation of the Washington State Department of Retirement Services ("DRS") Public Employees' Retirement System ("PERS") collective net pension liability. The District had approximately \$1.3 billion in bonded debt outstanding for each of the years ended December 31, 2018, 2017, and 2016, respectively.

Deferred inflows of resources related to pensions were \$13.7 million, \$8.7 million and \$0.9 million as of December 31, 2018, 2017 and 2016, respectively. The increases in deferred inflows partially offset the decrease in the District's proportionate share in of the PERS net pension liability and are then amortized over future periods.

NET POSITION

Total net position was \$1.2 billion, \$1.1 billion and \$1.0 billion as of December 31, 2018, 2017 and 2016, respectively. These increases have been driven by the positive changes in net position resulting from increased retail energy sales and stable net wholesale revenues; partially offset by increasing operating expenses. Refer to 'Statement of Revenues, Expenses and Changes in Net Position' section below for further analysis.

Management's Discussion and Analysis (Unaudited)
Years ended December 31, 2018 and 2017

STATEMENT OF REVENUES AND EXPENSES

Operating Revenues: Total operating revenues increased by \$17.4 million (6%) from 2017 to 2018 and \$7.6 million (3%) from 2016 to 2017, which was the net result of several items discussed below:

Retail energy sales were \$201.4 million, \$188.5 million and \$175.8 million in 2018, 2017 and 2016, respectively. These increases of 7% from 2018 to 2017 and 2017 to 2016 are primarily driven by continued load growth of the District's largest commercial and industrial customers and moderate 2% average price increases implemented by the Commission.

Wholesale revenues, net were \$67.2 million, \$54.8 million and \$62.5 million in 2018, 2017 and 2016, respectively. These revenues are reflective of the individual ebbs and flows of the economy through power consumption, market forces on wholesale power prices and generation or hydrology variability. The aforementioned Pooling Agreement and slice agreements hedge water and price risks for the District resulting in relatively stable revenue streams. Total net payments received by the District under the Pooling Agreement have been \$12.9 million, \$12.8 million and \$12.8 million in 2018, 2017 and 2016, respectively. Additionally, market purchases are offset by financial proceeds the District receives according to the long-term power sales contracts associated with the District load that is above the reserve 63.3% physical share of the Priest Rapids Project. These proceeds totaled \$40.4 million, \$29.4 million and \$24.5 million in 2018, 2017 and 2016, respectively; which exceeded other power purchases of \$12.9 million, \$15.9 million and \$16.1 million for the same periods.

Sales to power purchasers at cost were \$31.6 million, \$41.8 million and \$40.0 million in 2018, 2017 and 2016, respectively. These revenues are directly tied to power costs as defined in the long-term power sales contracts and the proportion of the power costs that the power purchasers are responsible for per the contracts. Total contractual power costs were \$167.0 million, \$167.2 million and \$150.6 million in 2018, 2017 and 2016, respectively. The percentage of these costs covered by power purchasers continued to decrease (18.9%, 25.0% and 26.6% in 2018, 2017 and 2016, respectively) which drove the relative decrease in revenues versus total power costs. This trend is expected to continue as long as the District's retail load is expected to continue to increase.

Wholesale fiber optic network sales were \$8.3 million, \$6.9 million and \$6.2 million in 2018, 2017 and 2016, respectively. These increases of \$1.4 million (17%) from 2017 to 2018 and \$0.7 million (11%) from 2016 to 2017 are primarily driven by the substantially improved take rate (percentage of system subscribed versus unsubscribed), continued build out of the network and moderate price increases on the most popular service offerings.

Operating Expenses: Total operating expenses increased by \$3.9 million (2%) from 2017 to 2018 and \$11.2 million (6%) from 2016 to 2017, which was the net result of several items discussed below:

Depreciation and amortization expense was \$73.2 million, \$66.2 million and \$62.0 million in 2018, 2017 and 2016, respectively. These increases are consistent with the investment in Utility plant, net and are affected by the timing of major units at the Priest Rapids Project being placed in service (one unit was commissioned in January of 2018 and work began on the second unit in February of 2018 contributing to the larger increase of 11% from 2017 to 2018).

Other operating expenses were \$129.5 million, \$132.6 million and \$125.6 million in 2018, 2017 and 2016, respectively. The decrease of \$3.1 million (2%) from 2017 to 2018 was largely due to the \$3.1 million non-recurring repair of the Wanapum apron spillway affecting 2017 and the amortization of deferred inflows and outflows related to the District's pension obligations (\$2.4 million); partially offset by a moderate overall increase in all other operating expenses (\$2.4 million). The increase of \$7.0 million (6%) from 2016 to 2017 was largely driven by the

Management's Discussion and Analysis (Unaudited) **Years ended December 31, 2018 and 2017**

non-recurring Wanapum apron spillway repair (\$3.1 million), increased FERC license compliance related costs (\$1.5 million) and other increases in operating expenses.

Non-Operating Revenues and Expenses:

Other revenues (expenses) were \$31.2 million, \$29.6 million and \$31.0 million in 2018, 2017 and 2016, respectively. The \$1.6 million (5%) increase from 2017 to 2018 and \$1.4 million (5%) decrease from 2016 to 2017 were largely driven by non-recurring insurance proceeds of \$1.7 million received in 2017 associated with the Central Ephrata Substation damage. Interest expense (net of capitalized interest and federal rebates on revenue bonds) is the largest component of other revenues (expenses) and remained relatively flat (\$46.2 million, \$46.4 million and \$45.9 million in 2018, 2017 and 2016, respectively).

Contributions in aid of construction ("CIACs") revenues were \$12.5 million, \$10.6 million and \$4.6 million in 2018, 2017 and 2016, respectively. These revenues are earned as the District completes infrastructure requests funded by customers. Variability in numbers correlate with any planned or ongoing capital projects.

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. For questions regarding this report or additional information, please contact the District's Chief Financial Officer at the Public Utility District No. 2 of Grant County, P.O. Box 878, Ephrata, Washington 98823.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

Statements of Net Position

December 31, 2018 and 2017
(amounts in thousands)

ASSETS	2018	2017 (As restated)
CURRENT ASSETS		
Cash	\$ 2,823	\$ 126
Investments	131,675	79,132
Restricted funds		
Cash	921	46,813
Investments	125,860	53,017
Customer accounts receivable, net	29,849	25,036
Materials and supplies	17,956	17,843
Due from power purchasers	1,195	952
Other current assets	1,584	1,741
	<hr/>	<hr/>
Total current assets	311,863	224,660
	<hr/>	<hr/>
NONCURRENT ASSETS		
Investments	21,538	9,464
Restricted funds		
Cash	144	5,286
Investments	259,093	376,629
Conservation loans	365	459
Demand-side management	413	698
Preliminary survey costs	6,005	5,866
	<hr/>	<hr/>
Total other noncurrent assets	287,558	398,402
	<hr/>	<hr/>
Utility plant, net	2,097,261	2,045,370
	<hr/>	<hr/>
Total noncurrent assets	2,384,819	2,443,772
	<hr/>	<hr/>
TOTAL ASSETS	2,696,682	2,668,432
	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - pensions	5,753	6,582
Deferred outflows of resources - losses on refundings	4,374	5,554
	<hr/>	<hr/>
Total deferred outflows	10,127	12,136
	<hr/>	<hr/>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,706,809	\$ 2,680,568
	<hr/>	<hr/>

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

Statements of Net Position

December 31, 2018 and 2017
(amounts in thousands)

LIABILITIES AND NET POSITION	2018	2017 (As restated)
CURRENT LIABILITIES		
Accounts payable		
Trade	\$ 22,746	\$ 34,768
Wages payable	12,742	11,534
Accrued taxes	7,432	7,026
Customer deposits	13,831	14,900
Accrued bond interest	29,470	28,191
Unearned revenue	4,982	8,664
Habitat liability	15,985	15,146
Other current liabilities	40	40
Current portion of licensing obligations	2,283	2,313
Current portion of long-term debt	29,240	31,635
	<hr/>	<hr/>
Total current liabilities	138,751	154,217
	<hr/>	<hr/>
NONCURRENT LIABILITIES		
Revenue bonds, less current portion	1,269,395	1,298,635
Unamortized bond premium, net of discount	36,669	41,489
Licensing obligations, less current portion	46,748	49,220
Net pension liability	32,686	46,371
Other postemployment benefits	6,977	6,806
Long-term unearned revenue	2,157	5,224
	<hr/>	<hr/>
Total noncurrent liabilities	1,394,632	1,447,745
	<hr/>	<hr/>
TOTAL LIABILITIES	1,533,383	1,601,962
	<hr/>	<hr/>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pensions	13,693	8,725
	<hr/>	<hr/>
Total liabilities and deferred inflows of resources	1,547,076	1,610,687
	<hr/>	<hr/>
NET POSITION		
Net investment in capital assets	749,689	761,891
Restricted	303,885	288,064
Unrestricted	106,159	19,926
	<hr/>	<hr/>
Total net position	1,159,733	1,069,881
	<hr/>	<hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 2,706,809	\$ 2,680,568
	<hr/>	<hr/>

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

Statements of Revenues and Expenses and Changes in Net Position

Years Ended December 31, 2018 and 2017

(amounts in thousands)

	2018	2017 (As restated)
OPERATING REVENUES		
Sales to power purchasers at cost	\$ 31,610	\$ 41,789
Retail energy sales		
Residential	43,160	45,270
Irrigation	25,785	24,080
Commercial and industrial	130,390	118,025
Governmental and others	2,056	1,097
Wholesale revenues, net	67,186	54,753
Wholesale fiber optic network sales	8,260	6,860
Other	2,823	2,035
	<hr/>	<hr/>
Total operating revenues	311,270	293,909
	<hr/>	<hr/>
OPERATING EXPENSES		
Generation	31,073	30,899
Transmission	6,679	5,378
Distribution	13,561	14,367
Customer and information services	5,766	5,640
Wholesale fiber optic network operations	2,265	1,921
Administrative and general	33,383	37,709
License compliance and related agreements	19,945	20,386
Depreciation and amortization	73,234	66,206
Taxes	16,801	16,284
	<hr/>	<hr/>
Total operating expenses	202,707	198,790
	<hr/>	<hr/>
NET OPERATING INCOME	108,563	95,119
	<hr/>	<hr/>
OTHER REVENUES (EXPENSES)		
Interest and other income	11,391	12,833
Interest on revenue bonds and other, net	(56,780)	(56,933)
Federal rebates on revenue bonds	10,552	10,556
Amortization of debt discount/premium	3,641	4,909
Cost of debt issuance	-	(973)
	<hr/>	<hr/>
Total other revenues (expenses)	(31,196)	(29,608)
	<hr/>	<hr/>
CONTRIBUTIONS IN AID OF CONSTRUCTION	12,485	10,649
	<hr/>	<hr/>
CHANGE IN NET POSITION	89,852	76,160
	<hr/>	<hr/>
NET POSITION		
Beginning of year	1,069,881	993,721
	<hr/>	<hr/>
Total net position - end of year	\$ 1,159,733	\$ 1,069,881
	<hr/>	<hr/>

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

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

(amounts in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from retail energy sales	\$ 198,460	\$ 186,310
Cash received from sales to power purchasers at cost	31,369	20,566
Cash received from wholesale revenues	78,889	86,569
Other cash receipts	11,135	10,667
Cash received (paid) for customer deposits	(1,069)	3,836
Cash paid for purchase of power	(11,439)	(16,342)
Cash paid to contractors, suppliers, and employees	(117,097)	(114,976)
Taxes paid	(16,384)	(15,817)
	<u>173,864</u>	<u>160,813</u>
Net cash provided by operating activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on revenue bonds	(31,635)	(32,075)
Interest paid on revenue bonds	(55,503)	(59,349)
Federal interest rebates	10,552	10,556
Bond proceeds	-	183,556
Payment on refunded debt	-	(140,534)
Bond issuance cost	-	(973)
Cash received from contributions in aid of construction	4,070	19,766
Licensing obligation payments	(2,313)	(3,049)
Acquisition and construction of plant assets	(138,627)	(166,956)
Proceeds on sale of plant assets	520	277
Miscellaneous nonoperating income	1,199	1,647
	<u>(211,737)</u>	<u>(187,134)</u>
Net cash used in capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(488,923)	(602,339)
Sale of investment securities	516,188	621,448
Investment income proceeds	12,277	9,511
Net repurchase agreements	(50,100)	7,100
Net cash received for conservation loans	94	107
	<u>(10,464)</u>	<u>35,827</u>
Net cash provided by (used in) investing activities		
NET INCREASE/(DECREASE) IN CASH	<u>\$ (48,337)</u>	<u>\$ 9,506</u>

The Statements of Cash Flows continue onto the following page.

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

Statements of Cash Flows

Years Ended December 31, 2018 and 2017
(amounts in thousands)

	2018	2017
CASH AT END OF YEAR	\$ 3,888	\$ 52,225
CASH AT BEGINNING OF YEAR	<u>52,225</u>	<u>42,719</u>
NET INCREASE/(DECREASE) IN CASH	<u>\$ (48,337)</u>	<u>\$ 9,506</u>
OPERATING ACTIVITIES		
Net operating income	\$ 108,563	\$ 95,119
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	73,234	66,206
Accretion expense	2,605	2,766
Provision for uncollectible accounts	24	(21)
Cash provided by (used in) changes in operating assets and liabilities:		
Change in Habitat funds held in trust	972	1,828
Customer accounts receivable	(4,052)	(3,857)
Materials and supplies	(113)	(261)
Other current assets	136	(262)
Trade and wages payables	(636)	3,120
Payable to power purchasers	(241)	(5,392)
Deferred outflows - Pension	828	1,823
Deferred inflows/outflows	-	-
Deferred inflows - Pension	4,968	7,795
Pension obligation	(13,684)	(14,552)
Accrued taxes	406	537
Customer deposits	(1,069)	3,690
Other postemployment benefits	171	304
Unearned revenue	(107)	(107)
Other Income	<u>1,859</u>	<u>2,077</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 173,864</u>	<u>\$ 160,813</u>
Non-cash Investing, Capital and Related Financing Activities		
Changes in construction costs included in accounts payable	\$ (10,238)	\$ (739)
Amortization of debt related costs, net	2,195	(5,382)
Changes in investments	2,983	719
Change in licensing obligation	2,794	3,305

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

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

1. ORGANIZATION AND ACCOUNTING POLICIES

Public Utility District No. 2 of Grant County, Washington (the “District”) is comprised 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 12.

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. 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.

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 No. 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 No. 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.

In January 2017, GASB issued Statement No. 84, “Fiduciary Activities.” This statement addresses criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements for Statement No. 84 are effective for reporting periods beginning after December 15, 2018. The District is currently evaluating the financial statement impact of adopting this statement.

In March 2017, GASB issued Statement No. 85, “OMNIBUS 2017.” The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of Statement No. 85 are effective for reporting periods beginning after June 15, 2017. The adoption of this statement did not have a material effect on the District’s financial statements.

In May 2017, GASB issued Statement No. 86, “Certain Debt Extinguishments Issues.” The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of Statement No. 86 are effective for reporting periods beginning after June 15, 2017. The adoption of this statement did not have a material effect on the District’s financial statements.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

In June 2017, GASB issued Statement No. 87, "Leases." The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of Statement No. 87 are effective for reporting periods beginning after December 15, 2019. The District is currently evaluating the financial statement impact of adopting this statement.

In April 2018, GASB issued Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements." The primary objective of this statement is to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement defines for purposes of disclosure in notes to financial statements as a liability that arise from contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of Statement No. 88 are effective for reporting periods beginning after June 15, 2018. The District is currently evaluating the financial statement impact of adopting this statement.

In June, 2018, GASB issued Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period." The objectives of this statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. The requirements of Statement No. 89 are effective for reporting periods beginning after December 15, 2019. The District is currently evaluating the financial statement impact of adopting this statement.

In August, 2018, GASB issued Statement No. 90, "Majority Equity Interests." The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The requirements of Statement No. 90 are effective for reporting periods beginning after December 15, 2018. The District does not own a majority interest in a legally separate organization and therefore expects there to be no impact to the District's financial statements.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

Change in Accounting Principle – Other Postemployment Benefit (OPEB)

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

The cumulative impact of implementation of GASB 75 resulted in a \$4.0 million reduction in net position as of January 1, 2017 as a result of recognizing the beginning total OPEB liability of \$6.8 million.

The 2017 financial statements have been restated as follows:

Impacts to the District's Statement of Net Position

(amounts in thousands)	Restated 2017 Balance	2017 Balance as Previously Reported
NONCURRENT LIABILITIES		
Other post employment benefits	\$ 6,806	\$ 2,794
Total noncurrent liabilities	<u>1,447,745</u>	<u>1,443,733</u>
TOTAL LIABILITIES	<u>1,601,962</u>	<u>1,597,950</u>
Total liabilities and deferred inflows of resources	<u>1,610,687</u>	<u>1,606,675</u>
NET POSITION		
Unrestricted	<u>143,004</u>	<u>147,016</u>
Total net position	<u>\$ 1,069,881</u>	<u>\$ 1,073,893</u>

Impacts to the District's Statement of Revenues, Expenses and Changes in Net Position

(amounts in thousands)	Restated 2017 Balance	2017 Balance as Previously Reported
OPERATING EXPENSES		
Administrative and general	\$ 37,709	\$ 37,731
Total operating expenses	<u>198,790</u>	<u>198,812</u>
NET OPERATING INCOME	<u>95,119</u>	<u>95,097</u>
CHANGE IN NET POSITION	<u>\$ 76,160</u>	<u>\$ 76,138</u>

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

Sales to power purchasers at costs are revenues associated with power sales from the Priest Rapids Project under the long term Power Sales Contracts described in Note 6 and are recorded on a cost-based formula specified in the contracts which include operation and maintenance costs, 115% of debt service, and adjustments related to other factors. Depreciation, amortization, charges paid by the Renewal, Replacement and Contingency Fund, and Construction Funds are not considered costs of producing and delivering power for this purpose.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

Wholesale revenues, net are recognized when contractual obligations are met or ratably over the contract term (capacity payments) and presented gross except for the SENA Pooling Agreement (refer to “SENA Pooling Agreement”).

SENA Pooling Agreement – 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 trueed up and payment made by either SENA or the District. The District has not experienced 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. All activities under the SENA pooling agreement are presented net in the Wholesale revenues, net line item on the Statements of Revenues and Expenses and Changes in Net Position.

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 2018 and 2017, the allowance for uncollectible accounts was approximately \$0.2 million for both years.

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 or Fiber Optic Network Customers. The District recognizes capital contributions from these sources as non-operating revenue at the point at which it becomes nonrefundable. The District recognized \$12.5 million and \$10.6 million of Contributions in Aid of Construction for the years ended December 31, 2018 and 2017, 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 3.57% and 2.09% for 2018 and 2017, respectively. Interest capitalized during 2018 and 2017 was \$3.7 million and \$4.0 million, respectively. This is recognized as a reduction in to interest expense.

Utility Plant – Utility plant assets are recorded at cost including an allocation of internal payroll and other administrative and general costs associated with construction of the assets. Depreciation is determined by the straight-line method over the estimated life of the asset. Meters and transformers begin depreciating when received regardless of in service date. The District’s asset lives used for computing depreciation range from five to 100 years, with an average rate of 2.46% and 2.29% for 2018 and 2017, 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 per the District’s Asset Capitalization Policy. The Policy requires assets to have a minimum useful life of five years and minimum cost of \$10,000; except for permanent additions to transmission and distribution or wholesale fiber plant, which only require a useful life greater than one year. 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

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

service utility and the associated impairment loss is charged either to operations or an extraordinary item depending on its nature.

Preliminary Survey Costs— Certain preliminary costs are capitalized in accordance with FERC accounting guidance, which allows the capitalization of preliminary surveys, plans, designs, investigations, etc., incurred for the purpose of determining the feasibility of utility projects under contemplation. If construction results, these costs are transferred to construction work in progress. A project that is unfeasible or abandoned is expensed in the current period.

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 and includes overheads.

Due from/to Power Purchasers — This balance represents the difference between estimated power costs received by the Priest Rapids Project from power purchasers versus actual power costs, which will be paid to or received from the power purchasers in the following year.

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 for issuances that occurred after 2013. For issuances that occurred prior to 2013, debt issuance costs are being amortized over the life of the related debt.

Refunding of debt — The gain or loss on refunding of debt is recognized as a deferred inflow or outflow of resources and amortized over the remaining life of the refunded or newly issued bond(s), whichever is shorter. If debt is extinguished using the District’s own reserves, any resulting gain or loss is recognized during the current period.

Unearned Revenue — Contributions In Aid of Construction that are refundable are recorded as short-term or long-term unearned revenue depending on when construction associated with the contribution(s) is expected to

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

be complete. Additionally, the District has two long-term exchange contracts under which the District received collective prepayments of \$2.0 million that are being amortized into revenue on a straight-line basis over the life of these agreements.

Revenue Taxes – Utility revenue-based taxes assessed by governmental entities are accounted for as a separate cost collected from customers for remittance to those governmental entities. Therefore, revenue taxes paid to the taxing authorities are accounted for as an operating expense on the Statements of Revenues and Expenses and Changes in Net Position. Taxes collected from customers on behalf of other governmental entities are included in Retail energy sales in the Statements of Revenues and Expenses and Changes in Net Position.

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

Net Position – The District classifies net position into three components – Net investment in capital assets; Restricted; and Unrestricted. These classifications are defined as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation reduced by the outstanding debt balances, net of unamortized debt expenses, and related unspent project and debt service funds.
- *Restricted* – This component of net position consists of assets with constraints placed on their use. Constraints include those imposed by debt trust indentures, grants or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net position consists of net assets and liabilities that do not meet the definition of “restricted” or “net investment in capital assets.”

Reclassifications – Certain amounts in the 2017 Consolidated Financial Statements have been reclassified in order to conform to the 2017 presentation.

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 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 \$1.1 million at December 31, 2018 and 2017. 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 deductibles up to \$2.5 million per loss, and subject to policy terms and conditions.

Notes to the Financial Statements
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Energy Risk Management – The District’s power marketing activities are confined to balancing District loads and resources and optimizing the value of the Priest Rapids Project with the intent of maximizing the benefit for Electric System retail customers. Power is purchased only to meet Electric System projected loads. Power surplus to the Electric System’s needs is resold in a manner that seeks to average market prices. In recognition of the increasing number of power transactions, price volatility and changing power supply contracts, the Commission established a Risk Oversight Committee in 2001 to review and update the energy risk management policies of the District and to provide greater ongoing monitoring and review of power transactions. The Risk Oversight Committee is comprised of senior management in the areas of wholesale energy marketing, financial management and risk management; and meets regularly to monitor marketing activities, corporate position, policies, and risk. The Energy Risk Oversight Committee has developed and maintained an Energy Risk Management and Reporting Policy which has been adopted by the Commission. The policy outlines the parameters for transactions, trader and counterparty exposure, and establishes review protocols and reporting frequency for all power supply management activities. The District believes its adherence to a periodic review of these policies and its controls to assure they are pertinent and being followed limit the risk of substantial financial loss resulting from the District’s power supply management activities.

Personal Leave Benefit – Employees of the District accrue a personal leave benefit at rates dependent on year of service. Personal leave may be used for vacation, sick leave, or other employee absences. Unused personal leave may be accumulated up to a maximum of 1,200 hours for employees who began service prior to April 1, 2011. For employees hired on or after April 1, 2011, the maximum amount of accrued personal leave is 700 hours.

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, net pension and other postemployment benefits/liabilities, and depreciable lives of utility plant.

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. Accordingly, the balances are generally reported as of June 30 instead of December 31 because the DRS’ fiscal year ends on June 30th of each year. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value at the State level.

Deferred Outflows/Inflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District’s proportionate share of deferred outflows related to those plans. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. Deferred outflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining

Notes to the Financial Statements
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deferred outflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

2. CASH AND INVESTMENTS

The District's cash deposits at December 31, 2018 and 2017, were either covered by federal depository insurance or protected against loss by being on deposit with financial institutions recognized as qualified public depositories of the State of Washington under the Revised Code of Washington ("RCW") Chapter 39. Subject to specific bond resolution limitations, management is permitted to invest as provided under the laws of the State of Washington.

Unspent cash, and associated investments, received in connection with bond offerings are maintained in funds as required by 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 restricted assets. However, their use may be redirected at any time with Commission approval. Additionally, the Electric System Reserve and Contingency Fund's board resolution explicitly includes the ability to transfer rate stabilization resources out of the fund to be available for debt service coverage in any given year, if required. No rate stabilization transfers in or out of the fund occurred in 2018 or 2017.

As of December 31, 2018 and 2017, the District's unrestricted and restricted assets included on the Statement of Net Position as Cash and Investments, including accrued interest, consisted of the following:

(amounts in thousands)	2018	2017
Unrestricted assets:		
Revenue and Service System funds	\$ 156,036	\$ 89,490
Total unrestricted assets	<u>156,036</u>	<u>89,490</u>
Restricted assets:		
Electric System Reserve and Contingency fund	124,201	121,262
Self-Insurance Reserve fund	1,084	1,048
Total board designated funds	<u>125,285</u>	<u>122,310</u>
Construction funds	27,423	137,393
Bond Sinking funds	149,449	137,337
Debt Service Reserve funds	55,636	54,769
Renewal, Replacement and Contingency fund	12,000	12,462
Habitat funds	16,225	15,212
Quincy Chute Renewal and Replacement fund	-	1,494
Total restricted assets	<u>386,018</u>	<u>480,977</u>
Total	<u>\$ 542,054</u>	<u>\$ 570,467</u>

Interest Rate Risk – The District's investment policy and investment oversight committee governs and monitors investment position limitations as a means of managing its exposure to fair value losses arising from

Notes to the Financial Statements
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increasing interest rates and to ensure compliance with State Law. 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. To the extent possible, the District matches its investments with anticipated cash flow requirements such as operating, construction, habitat and current year debt service. Other funds such as reserves and long-term sinking funds are invested within targeted effective duration parameters as determined by the investment oversight committee. With the exception of reserve and long-term sinking funds, the District will not invest in securities with an effective duration of more than six years from the date of purchase unless authorized by the investment oversight committee for specific transactions. Callable investments are assumed to be held to maturity.

Below are the District’s investment maturities for all combined operating and special purpose fund as of December 31, 2018 and 2017:

<i>(amounts in thousands)</i>	2018		2017	
	Amount Invested	Percent of Invested Fund	Amount Invested	Percent of Invested Fund
Term				
Less than 90 days	\$ 158,528	30%	\$ 101,908	20%
90 days to 1 year	129,655	24%	160,444	31%
1 year to 5 years	93,095	17%	94,711	18%
Bond reserves invested to bond maturity	153,338	29%	157,676	31%
Total Investments	\$ 534,616	100%	\$ 514,739	100%

Credit Risk – The District’s investment policy complies with State Law and specifies minimal credit rating acceptability criteria of potential investment issuers. Pursuant to the investment policy, the minimum credit rating requirement at the time of investment purchase is one of the three highest credit ratings of a nationally recognized rating agency.

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

Concentration of Credit Risk – The District’s investment policy states that with the exception of direct U.S. Government obligations, repurchase agreements collateralized by the same, and the state investment pool, no more than 50% of the total portfolio par value will be invested in government sponsored agencies, supranational institutions or municipal bonds, and no more than 25% of the total portfolio par value will be invested in corporate bonds and commercial paper. Credit concentration of the District’s investment portfolio is actively monitored by the investment oversight committee as required by the District’s investment policy.

The investment oversight committee actively monitors portfolio composition and seeks to ensure prudent diversification is maintained. The following are the concentrations of risk greater than five percent in either year. The credit ratings listed are from Standard and Poor’s Rating Services as of December 31, 2018.

Investments by Issuer	Credit Rating	2018	2017
U.S. Treasury	AAA	18%	20%

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

The District's investments at December 31, 2018 and 2017, 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, except for funds held in the Washington State Local Government Investment Pool which are not evidenced by securities. The difference between the totals shown in the previous table and table below is accrued interest of \$3.6 million and \$3.5 million for 2018 and 2017, respectively.

During 2018 and 2017, the District recognized \$12.3 million and \$9.7 million of interest earnings net of unrealized losses on investments, respectively. The unrealized net loss on investments held at December 31, 2018 and 2017, was a \$3.0 million net loss and a \$1.0 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 – debt issued by entities formed by two or more central governments with the purpose of promoting economic development in member countries, 4) Money market funds that have holdings of or are backed by U.S. Government obligations, 5) Municipal bonds, 6) Corporate bonds and commercial paper, and 7) the Washington State Treasurer's Local Government Investment Pool ("LGIP" or "State Investment Pool"). Investments by type at December 31, 2018 and 2017, were as follows:

(amounts in thousands)	2018		2017	
U.S. Treasuries	\$ 96,596	18%	\$ 112,030	20%
Municipal Bonds	189,863	35%	199,149	35%
U.S. Agencies	49,242	9%	60,710	11%
Repurchase Agreements	71,000	13%	20,900	4%
Commercial Paper	38,731	7%	26,329	5%
Supranational Institutions	46,225	9%	46,258	8%
Corporate Notes	27,922	5%	41,856	7%
State Investment Pool	15,037	3%	7,507	1%
Total investments	\$ 534,616	99%	\$ 514,739	91%
Cash	3,888	1%	52,225	9%
Total cash and investments	\$ 538,504	100%	\$ 566,964	100%

Fair Value Measurements – The District's investments have been adjusted to reflect fair value measurements as of December 31, 2018, 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 was 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 U.S. Treasuries using quoted prices in active markets. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The State Investment Pool is an unrated external investment pool that invests in a manner consistent with the U.S. Securities and Exchange Commission's rule 2a-7 of the Investment Company Act of 1940. The District reports these investments at amortized cost. Participants may contribute and withdraw funds on a daily basis and must inform the Local Government Investment Pool (LGIP) of any contribution or withdrawal over \$1.0 million no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for \$1 million or less can be requested at any time prior to 10:00 a.m. on the

Notes to the Financial Statements
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day of the transaction. However, participants may complete transactions greater than \$1 million when notification is made between 9:00 a.m. and 10:00 a.m., at the sole discretion of the LGIP. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

Below are the District's fair value measurements as of December 31, 2018 and 2017:

(amounts in thousands)	Total 2018	Level 1	Level 2	Level 3	Not Leveled
Investments by fair value level					
Debt Securities					
Municipal Bonds	\$ 189,863	\$ -	\$ 189,863	\$ -	\$ -
U.S. Treasuries	96,596	96,596	-	-	-
U.S. Agencies	49,242	-	49,242	-	-
Supranational Institutions	46,225	-	46,225	-	-
Corporate Notes	27,922	-	27,922	-	-
Commercial Paper	38,731	-	38,731	-	-
Repurchase Agreements	71,000	-	71,000	-	-
State Investment Pool	15,037	-	-	-	15,037
Total investments by fair value level	\$ 534,616	\$ 96,596	\$ 422,983	\$ -	\$ 15,037

(amounts in thousands)	Total 2017	Level 1	Level 2	Level 3	Not Leveled
Investments by fair value level					
Debt Securities					
Municipal Bonds	\$ 199,149	\$ -	\$ 199,149	\$ -	\$ -
U.S. Treasuries	112,030	112,030	-	-	-
U.S. Agencies	60,710	-	60,710	-	-
Supranational Institutions	46,258	-	46,258	-	-
Corporate Notes	41,856	-	41,856	-	-
Commercial Paper	26,329	-	26,329	-	-
Repurchase Agreements	20,900	-	20,900	-	-
State Investment Pool	7,507	-	-	-	7,507
Total investments by fair value level	\$ 514,739	\$ 112,030	\$ 395,202	\$ -	\$ 7,507

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

3. UTILITY PLANT

Utility plant of the District as of December 31, 2018, and 2017, is summarized as follows:

(amounts in thousands)	Balance 2017	Additions	Retirements/ Transfers	Balance 2018
Distribution facilities	\$ 562,141	\$ 50,398	\$ (4,296)	\$ 608,243
Transmission facilities	250,073	953	-	251,026
Hydro facilities				
Power plant structures	138,047	6,066	-	144,113
Reservoirs, dams, waterways	508,357	6,288	(3,570)	511,075
Power plant equipment	625,031	124,555	-	749,586
General facilities				
Quincy Chute (Note 6)	17,771	22	750	18,543
Potholes East Canal (Note 6)	16,450	41	-	16,491
Other generation	30	-	-	30
General plant	507,289	35,549	(1,706)	541,132
FERC License	116,050	-	(2,794)	113,256
Other intangible assets	41,067	6,706	(1,419)	46,354
Total	2,782,306	230,578	(13,035)	2,999,849
Accumulated depreciation and amortization	(993,006)	(73,036)	5,534	(1,060,508)
Subtotal	1,789,300	157,542	(7,501)	1,939,341
Land and land rights	24,920	-	(1)	24,919
Construction in progress	231,150	130,782	(228,931)	133,001
Total net utility plant	\$ 2,045,370	\$ 288,324	\$ (236,433)	\$ 2,097,261

Notes to the Financial Statements
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(amounts in thousands)	Balance 2016	Additions	Retirements/ Transfers	Balance 2017
Distribution facilities	\$ 504,538	\$ 57,866	\$ (263)	\$ 562,141
Transmission facilities	241,140	8,933	-	250,073
Hydro facilities				
Power plant structures	134,860	3,187	-	138,047
Reservoirs, dams, waterways	495,941	12,416	-	508,357
Power plant equipment	579,042	49,540	(3,551)	625,031
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	475,856	31,461	(28)	507,289
FERC license	119,355	(3,305)	-	116,050
Other intangible assets	33,997	7,073	(3)	41,067
Total	2,618,980	167,171	(3,845)	2,782,306
Accumulated depreciation and amortization	(930,609)	(66,307)	3,910	(993,006)
	1,688,371	100,864	65	1,789,300
Land and land rights	24,611	309	-	24,920
Construction in progress	240,646	160,846	(170,342)	231,150
Total net utility plant	\$ 1,953,628	\$ 262,019	\$ (170,277)	\$ 2,045,370

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 \$57.1 million, were recorded as an intangible asset included in Utility plant and are being amortized over the term of the license. Accumulated amortization related to the relicensing efforts totaled \$24.6 million and \$21.9 million as of December 31, 2018 and 2017, 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 \$49.0 million as of December 31, 2018, of which approximately \$2.3 million is expected to be paid within one year. The present value of the obligations was \$51.5 million as of December 31, 2017. 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.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

5. REVENUE BONDS

The District did not issue new revenue bonds in 2018. In December of 2017, the District issued \$64.5 million of fixed rate refunding bonds (to refund the 2011-I Electric series) at a premium of \$10.8 million. The District used \$12.9 million of debt service reserves to reduce the total amount of bonds needed for the refunding transaction. The refunding of the 2011-I issue realized a \$1.2 million current refunding loss associated with unamortized discounts/premiums that will be amortized through 2023.

In November of 2017, the District issued \$49.9 million of fixed rate revenue refunding bonds at a premium of \$454,270 to refund the Electric System 2014-K series. There was no refunding gain or loss as the refunded bonds were originally issued at par. The refunding bonds were issued as a three year soft put fixed rate product, with final maturities ranging between years 2035 and 2044.

In September of 2017, the District issued a \$50.0 million variable rate revenue bond to finance capital improvements to the Electric System through a direct placement. The floating interest rate is 65.1% of LIBOR plus 0.475%. The District's 2016-L \$50.0 revenue bond was a direct placement with a floating interest rate of 65.1% of LIBOR plus 0.435% and a maturity date of April 19, 2019. The 2016-L maturity is excluded from the 2019 debt service presented below because the District executed a Bond Purchase Agreement to refund the 2016-L bond prior to issuance of the financial statements (refer to Note 12 Subsequent Events).

In February of 2017, the District refunded the remaining \$7.9 million of the Wanapum 2006B series through a fixed rate direct placement bond.

(amounts in thousands)	2018	2017
Electric System, interest rates of 1.32% to 5.00%, maturing through 2047	\$ 282,035	\$ 282,035
Priest Rapids Project, interest rates of 2.00% to 5.83%, maturing through 2044	<u>1,016,600</u>	<u>1,048,235</u>
Total revenue bonds outstanding	<u>\$ 1,298,635</u>	<u>\$ 1,330,270</u>

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

(amounts in thousands)	Principal	Interest	Total
2019	\$ 29,240	\$ 58,841	\$ 88,081
2020	80,580	56,807	137,387
2021	81,985	54,979	136,964
2022	32,940	53,379	86,319
2023 - 2027	240,270	241,708	481,978
2028 - 2032	245,315	173,929	419,244
2033 - 2037	227,445	112,137	339,582
2038 - 2042	303,105	45,363	348,468
2043 - 2047	57,755	3,408	61,163
Total	<u>\$ 1,298,635</u>	<u>\$ 800,551</u>	<u>\$ 2,099,186</u>

Notes to the Financial Statements
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For the years ending December 31, 2018 and 2017, the District is in compliance with all debt covenants related to the outstanding bonds, which includes a minimum debt service coverage of 1.15x and 1.25x for the Priest Rapids Project and Electric System senior bonds, respectively. The Electric System variable rate short term debt products are subordinate and have a coverage requirement of 1.10x.

During the years ended December 31, 2018 and 2017, the following changes occurred in the District's long-term debt:

(amounts in thousands)	2017 Balance	Additions	Reductions	2018 Balance	Due Within One Year
Revenue bonds payable	\$ 1,330,270	\$ -	\$ (31,635)	\$ 1,298,635	\$ 29,240
Unamortized premiums and discounts, net	41,489	-	(4,820)	36,669	-
Total	\$ 1,371,759	\$ -	\$ (36,455)	\$ 1,335,304	\$ 29,240

(amounts in thousands)	2016 Balance	Additions	Reductions	2017 Balance	Due Within One Year
Revenue bonds payable	\$ 1,325,105	\$ 172,315	\$ (167,150)	\$ 1,330,270	\$ 31,635
Unamortized premiums and discounts, net	40,428	11,241	(10,180)	41,489	-
Total	\$ 1,365,533	\$ 183,556	\$ (177,330)	\$ 1,371,759	\$ 31,635

6. POWER PURCHASER COMMITMENTS

Priest Rapids Project

Under the Priest Rapids Power Sales Contracts, the amount of net Priest Rapids Project 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 81.1% and 75.0% of Priest Rapids Project power costs with the long term contract power purchasers funding the remaining 18.9% and 25.0% for 2018 and 2017, respectively. Each purchaser is obligated to pay its share of the cost (excluding depreciation and amortization) of producing and delivering power, plus 115% of its share of the amounts required for debt service payments in accordance with the power purchase agreement.

Bonneville Power Administration (BPA)

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. In addition the District has purchased from BPA the transmission required to deliver the power associated with this load through September 30, 2028. The District has 12 megawatts ("MW") of transmission for the delivery of power from the Nine Canyon Wind Project with a term expiring on October 1, 2030.

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)

2019	\$ 1,408
2020	2,513
2021	2,589
2022	2,666
2023	2,746

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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. 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 amended share of the combined Project is 12.54%. In exchange for the output, the District pays its 12.54% share of certain Project costs and its 25% share of Phase I debt service (principal and interest), which is estimated to be a total of \$2.0 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 through the remainder of the agreement. The net payments to the Yakama Nation totaled \$1.1 million and \$0.4 million during 2018 and 2017, 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)

2019	\$	1,290
2020		719
2021		1,116
2022		1,073
2023		1,176
2024		1,175

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 the fiber buildout, electrical system upgrades, multiple transformer purchases, power cable purchases, and substation and distribution line construction projects over the next few years totaling approximately \$28.7 million as of December 31, 2018.

The District's improvement programs for the Priest Rapids Project include restoration or replacement of generators, turbine upgrades, unit controls, the station service and substation circuit breakers and replacing trunnion bearings and coating systems for spillway gates. The District also is committed to ongoing dam safety initiatives, which currently include Priest Rapids Dam's right embankment upgrade, assessment of Wanapum Dam's left embankment and seismic evaluation of concrete structures at both dams. The District intends to, or has committed by contract or regulatory requirement to, fulfill these programs, which are projected to be substantially complete by 2028. The contractually committed amount on future Priest Rapids Project work to be performed on these major capital programs is approximately \$209.8 million as of December 31, 2018.

Other Commitments

In 2006, the District entered into a Salmon and Steelhead Settlement Agreement (Agreement) with U.S. Fish and Wildlife Service (USFWS), the National Marine Fisheries Service of the National Oceanic and Atmospheric Administration (NOAA), the Washington Department of Fish and Wildlife (WDFW), Yakama Nation (YN), and the Confederated Tribes of the Colville Reservation (CCT) for the purpose of resolving all issues between 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 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 (USFWS, NOAA Fisheries, WDFW, CCT, YN, and the District). Per the Agreement, when performance standards have been achieved on a species-by-species basis, the no-net-impact fund annual contributions for that species will be terminated.

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.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

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 Agreement and the 2008 NOAA Fisheries BiOp for the protection and restoration of habitats along the mainstream and tributaries within the UCR watershed including the Okanogan, Methow, Entiat, and Wenatchee watersheds. 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. The District has fulfilled Part A of the 401 WQC related to native resident fish.

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 \$0.1 million per year, based upon 2003 dollars and annually adjusted for inflation.

In a FERC Order (issued on August 31, 2010) approving the Wildlife Habitat Management Plan (Article 409), 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, 2018, December 31, 2017 and December 31, 2016 equaled \$2.3 million, \$2.3 million and \$2.7 million, respectively. The following table shows the District’s estimate of the remaining fixed contributions to the Habitat funds as of December 31, 2018, representing required contributions through the FERC License term (2052).

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

Estimated Fixed Habitat Funding Commitments
(amounts in thousands)

2019	\$	2,283
2020		2,333
2021		2,383
2022		2,435
2023		2,488
2024 through 2052		101,175
Total	\$	<u>113,097</u>

8. RETIREMENT AND DEFERRED COMPENSATION PLANS

The following table represents the aggregate pension amounts for all plans as of and for the years ended December 31, 2018 and 2017:

Aggregate Pension Amounts - All Plans

(amounts in thousands)	2018	2017
Pension Liabilities	\$ 32,686	\$ 46,371
Deferred Outflows of Resources	5,753	6,582
Deferred Inflows of Resources	13,693	8,725
Pension Expense	423	2,850

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.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 and 2017 were as follows:

PERS Plan 1

Actual Contribution Rates:

2018

January - August 2018

	Employer	Employee
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	-
Administrative Fee	0.18%	-
Total	12.70%	6.00%

September - December 2018

PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	-
Administrative Fee	0.18%	-
Total	12.83%	6.00%

2017

January - June 2017

PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	0.18%	-
Total	11.18%	6.00%

July - December 2017

PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	-
Administrative Fee	0.18%	-
Total	12.70%	6.00%

The District's actual contributions to the plan were \$3.4 million and \$3.1 million for the years ended December 31, 2018 and 2017, 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.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

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.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

Contributions

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

The **PERS Plan 2/3** required contribution rates (expressed as a percentage of covered payroll) for 2018 and 2017 were as follows:

PERS Plan 2/3

**Actual Contribution Rates:
2018**

January - August 2018

	Employer	Employee
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3	-	varies
Total	12.70%	7.38%

September - December 2018

PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3	-	varies
Total	12.83%	7.41%

2017

January - June 2017

PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3	-	varies
Total	11.18%	6.12%

July - December 2017

PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3	-	varies
Total	12.70%	7.38%

Notes to the Financial Statements Years ended December 31, 2018 and 2017

The District's actual contributions to the plan were \$4.9 million and \$3.9 million for the years ended December 31, 2018 and 2017, respectively.

Actuarial Assumptions

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

The 2017 TPL for each of the DRS plans was determined using the actuarial valuation completed in 2017, with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2015 Economic experience Study*.

Additional 2018 assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. Additional 2017 assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018 and June 30, 2017. 2018 plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, and 2017 plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

Inflation: 2.75% total economic inflation; 3.50% salary inflation

Salary increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

Investment rate of return: 7.4%

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 changes in methods and assumptions between the 2017 and 2016 valuations.

- Lowered the valuation interest rate from 7.70% to 7.50% for all plans.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all plans.
- Lowered assumed inflation from 3.00% to 2.75% for all plans.

There were changes in methods and assumptions between the 2016 and 2015 valuations.

- How terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 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 7.4% 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 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience date, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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 are summarized in the tables 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.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
2018		
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	<hr style="border-top: 1px solid black;"/> 100% <hr style="border-top: 3px double black;"/>	
2017		
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	<hr style="border-top: 1px solid black;"/> 100% <hr style="border-top: 3px double black;"/>	

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

Sensitivity of Net Pension Liability (NPL)

The tables below present the District’s proportionate share of the net pension liability calculated using the applicable discount rate, 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 or 1-percentage point higher than applicable discount rate.

2018 (amounts in thousands)	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 27,099	\$ 22,050	\$ 17,678
PERS 2/3	48,648	10,636	(20,530)

2017 (amounts in thousands)	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 29,428	\$ 24,158	\$ 19,592
PERS 2/3	59,844	22,213	(8,620)

Pension Plan Fiduciary Net Position

Detailed information about the State’s pension plans’ fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018 and 2017, the District reported a total pension liability for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2018 and 2017):

Liability (amounts in thousands)	2018	2017
PERS 1	\$ 22,050	\$ 24,158
PERS 2/3	10,636	22,213
Total	\$ 32,686	\$ 46,371

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

The District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/2017	Proportionate Share 6/30/2018	Change in Proportion
PERS 1	0.509107%	0.493735%	-0.015372%
PERS 2/3	0.639308%	0.622917%	-0.016391%

	Proportionate Share 6/30/2016	Proportionate Share 6/30/2017	Change in Proportion
PERS 1	0.524928%	0.509107%	-0.015821%
PERS 2/3	0.650080%	0.639308%	-0.010772%

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 2018 and 2017 collective net pension liability was measured as of June 30, 2018 and 2017, respectively, and the actuarial valuation dates on which the total pension liability is based was as of June 30, 2017 and 2016, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the years ended December 31, 2018 and 2017, respectively, the District recognized pension expense as follows:

Pension Expense (amounts in thousands)	2018	2017
PERS 1	\$ 1,172	\$ 649
PERS 2/3	(749)	2,201
Total	\$ 423	\$ 2,850

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018 and 2017, respectively, the District recognized deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1 (amounts in thousands)	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 876	\$ -	\$ 901
Contributions subsequent to measurement date	1,720	-	1,640	-
Total	\$ 1,720	\$ 876	\$ 1,640	\$ 901

PERS Plan 2/3 (amounts in thousands)	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,304	\$ 1,862	\$ 2,251	\$ 731
Net difference between projected and actual investment earnings on pension plan investments	-	6,527	-	5,921
Changes of assumptions	123	3,027	236	-
Changes in proportion and differences between contributions and proportionate share of contributions	115	1,401	-	1,172
Contributions subsequent to measurement date	2,491	-	2,455	-
Total	\$ 4,033	\$ 12,817	\$ 4,942	\$ 7,824

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

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 following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(amounts in thousands)

Year ended December 31:	PERS 1	PERS 2/3
2019	\$ 38	\$ (1,525)
2020	(192)	(2,361)
2021	(575)	(4,134)
2022	(148)	(1,618)
2023	-	(686)
Thereafter	-	(949)
	\$ (877)	\$ (11,273)

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 approximately \$1 million in 2018 and 2017.

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

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the years 2018 and 2017:

Aggregate OPEB Amounts - All Plans				
(amounts in thousands)	2018		2017	
OPEB liabilities	\$	6,977	\$	6,806
OPEB assets	\$	-	\$	-
Deferred outflows of resources	\$	-	\$	-
Deferred inflows of resources	\$	-	\$	-
OPEB expense/expenditures	\$	599	\$	581

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

Plan Description

The District administers a single-employer defined benefit premium program (“the retiree subsidy plan”). District employees who end public employment are eligible to continue insurance coverage as a retiree if they retire under the public employees’ retirement system and are vested in that system and eligible for COBRA. The plan may be amended through collective bargaining (for bargaining unit employees) and ratified by the District’s Commission, or changed without bargaining for non-bargaining unit employees. The retiree subsidy plan does not issue a publicly available financial report.

Benefits Provided

The District pays a portion of the medical premiums for eligible retirees and their spouses from age 59 ½ until age 65. Retirees younger than 59 ½ may continue to receive coverage on a self-pay basis. The percentage of the medical premiums based upon years of service of the retirees. At the age of 59 ½, the retiree is eligible for a subsidy of 3% of their premium cost for each year of service 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. The cap for 2018 is \$499.40 for employee coverage and \$1,149.38 for employee and spouse coverage.

Employees Covered by Benefit Terms

At December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	51
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	640

Funding Policy

The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

Contributions

For the years ended December 31, 2018 and 2017, the District paid approximately \$0.4 million and \$0.3 million, respectively, in retiree subsidies.

Total OPEB Liability

The District’s total OPEB liability was measured as of December 31, 2018 and 2017 and was determined by an actuarial valuation dated December 31, 2017 rolled forward to the December 31, 2018 measurement date.

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2007-2012 Experience Study* and the *2015 Economic experience Study*.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

Actuarial Cost Method: Entry Age Normal.

Discount Rate: 3.50% per year, based on all years discounted at municipal bond rate.

General Inflation: 2.50% per year.

Wage Growth: 3.0% per year.

Merit and Longevity Scale: Salaries are assumed to increase at the sum of the Wage Growth assumption and the merit and longevity scale below:

Years of Service	Rate
0	6.00%
5	2.20%
10	0.50%
15	0.20%
18+	0.00%

Annual Premium Increase Rate:

Year	Rate
2018	6.30%
2019	6.20%
2020	6.10%
2021	6.00%
2022	5.90%
2023	5.80%
2024	5.70%
2025	5.60%
2026	5.50%
2027	5.40%
2028	5.30%
2029	5.20%
2030	5.10%
2031+	5.00%

Mortality Rates: Retirement Plan 2000, combined active/healthy retired, no collar, sex-distinct, projected fully generationally with Scale BB.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

Actuarial Assumptions and Other Inputs (Continued):

Employees with 30 or more years of service are assumed to retire with rates as follows:

Age	Male	Female
55	12.00%	12.00%
56	12.00%	12.00%
57	12.00%	12.00%
58	12.00%	12.00%
59	16.00%	24.00%
60	12.00%	12.00%
61	20.00%	20.00%
62	28.00%	28.00%
63	26.00%	26.00%
64	56.00%	56.00%
65	40.00%	40.00%

Participation 100% of actives eligible for District-paid medical benefits are assumed to be enrolled in a medical plan at retirement.

Plan Enrollment Current and future retirees are assumed to remain enrolled in the plans in which they are currently enrolled, if any.

Marital Status 65% of future retirees electing coverage are assumed to cover a spouse as well. Males are assumed to be three years older than their female spouses. Actual marital status and ages as of the valuation date are used for current retirees.

Changes in Total OPEB Liability

	2018	2017
	Increase (Decrease) Total OPEB Liability	Increase (Decrease) Total OPEB Liability
(amounts in thousands)		
Total OPEB Liability at January 1	\$ 6,806	\$ 6,525
Service Cost	362	351
Interest on total OPEB Liability	237	229
Effect of plan changes	-	-
Effect of economic/demographic gains or losses	-	-
Effect of assumptions changes or inputs	-	-
Benefit payments	(428)	(299)
Net change in total OPEB liability	171	281
Total OPEB Liability at December 31	<u>\$ 6,977</u>	<u>\$ 6,806</u>

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

Sensitivity of the total OPEB liability to changes in the discount rate.

The following presents the total OPEB liability of the District calculated using the discount rate of 3.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5%) or 1-percentage point higher (4.5%) than the current rate.

(amounts in thousands)	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
Total OPEB liability	\$ 7,600	\$ 6,977	\$ 6,428

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.

The following presents the total OPEB liability of the District calculated using the current healthcare cost trend rate of 6.3 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.3%) or 1-percentage point higher (7.3%) than the current rate.

(amounts in thousands)	1% Decrease 5.30% Graded Down to 4.00%	Current Discount Rate 6.30% Graded Down to 5.00%	1% Increase 7.30% Graded Down to 6.00%
Total OPEB liability	\$ 6,111	\$ 6,977	\$ 8,057

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018 and 2017, the District reported a liability of \$7.0 million and \$6.8 million, respectively. The total OPEB liability is based on the present value of the portion of future expected benefit payments that is considered to have been already earned by the participants. In future years, changes in the total OPEB liability due to actuarial gains or losses or changes in assumptions will be amortized over the average expected future working lifetime of participants, with unamortized amounts treated as deferred outflows or inflows of resources.

The District's annual OPEB cost (expense) is equal to the change in total OPEB liability, plus or minus changes in deferred outflows or inflows, plus employer contributions. For the years ended December 31, 2018 and 2017, the District recognized OPEB expense of \$0.6 million each year.

Notes to the Financial Statements
Years ended December 31, 2018 and 2017

10. CONTINGENCIES

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. WHOLESALE FIBER OPTIC NETWORK

The District is installing a wholesale fiber optic network to the premises in its service area. This fiber optic network is interconnected with multiple regional and national telecommunications carriers. The wholesale fiber optic network is available to retail and wholesale providers of Internet, telephone, and video services. The District has also implemented a wholesale wireless network which is available to retail wireless providers.

The following is a summary of the results of operations of the wholesale fiber optic and wireless networks, and the related utility plant balances and related additions, as of and for the years ended December 31, 2018 and 2017:

(amounts in thousands)	2018	2017
Operating revenues		
Wholesale fiber services	\$ 7,594	\$ 6,307
Dark fiber revenue	585	483
Wireless fiber revenue	81	70
Wholesale fiber optic network sales	<u>\$ 8,260</u>	<u>\$ 6,860</u>
Operating expenses		
Administrative and general	\$ 646	\$ 489
Repairs and maintenance	1,619	1,433
Depreciation	7,835	7,433
Total operating expenses	<u>\$ 10,100</u>	<u>\$ 9,355</u>
Nonoperating revenues		
Contributions in aid of construction	\$ 272	\$ 162
Utility plant		
Additions to utility plant	\$ 8,189	\$ 3,446
Utility plant, net of accumulated depreciation	\$ 83,915	\$ 83,561

12. SUBSEQUENT EVENT

On April 8, 2019, the District signed a direct placement bond purchase agreement with Bank of America, N.A. to issue a \$50.0 million Electric System refunding revenue bond on April 19, 2019. This bond will refund the \$50.0 million 2016-L issuance and will have a floating interest rate of 80% of LIBOR plus 0.37% maturing on July 1, 2021.

Notes to the Financial Statements (cont.)

13. SEGMENTS

The District has outstanding revenue bonds used to finance the Electric System and the Priest Rapids Project. As described in Note 5, all the outstanding bond issues 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 is required to be accounted for separately according to external contractual requirements. 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 consolidated District's results. "Other" is not considered a segment of the District.

CONDENSED STATEMENT OF NET POSITION

DECEMBER 31, 2018 (AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
ASSETS				
Total current assets	\$ 212,467	\$ 112,489	\$ (13,093)	\$ 311,863
Utility plant, net	595,796	1,501,465	-	2,097,261
Noncurrent	375,423	149,484	(237,350)	287,557
TOTAL ASSETS	1,183,686	1,763,438	(250,443)	2,696,681
Deferred outflows of resources	18,627	7,272	(15,771)	10,128
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,202,313	\$ 1,770,710	\$ (266,214)	\$ 2,706,809
LIABILITIES				
Current	\$ 46,076	\$ 102,857	\$ (10,182)	\$ 138,751
Noncurrent	309,243	1,325,668	(240,279)	1,394,632
TOTAL LIABILITIES	355,319	1,428,525	(250,461)	1,533,383
Deferred Inflows of resources	5,365	24,099	(15,771)	13,693
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	360,684	1,452,624	(266,232)	1,547,076
NET POSITION				
Net investment in capital assets	303,754	200,054	245,881	749,689
Restricted	137,107	161,672	5,106	303,885
Unrestricted	400,768	(43,640)	(250,969)	106,159
TOTAL NET POSITION	841,629	318,086	18	1,159,733
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 1,202,313	\$ 1,770,710	\$ (266,214)	\$ 2,706,809

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

Notes to the Financial Statements (cont.)

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED DECEMBER 31, 2018 (AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
OPERATING REVENUES				
Retail energy sales	\$ 201,391	\$ -	\$ -	\$ 201,391
Wholesale revenues, net	39,717	-	27,469	67,186
Sales to power purchasers at cost	-	167,845	(136,235)	31,610
Other	11,083	-	-	11,083
Total operating revenues	<u>252,191</u>	<u>167,845</u>	<u>(108,766)</u>	<u>311,270</u>
OPERATING EXPENSES				
Depreciation and amortization	40,033	33,201	-	73,234
Other operating expenses	161,153	77,086	(108,766)	129,473
Total operating expenses	<u>201,186</u>	<u>110,287</u>	<u>(108,766)</u>	<u>202,707</u>
NET OPERATING INCOME	<u>51,005</u>	<u>57,558</u>	<u>-</u>	<u>108,563</u>
OTHER REVENUES (EXPENSES)				
Interest and other income	14,003	6,245	(8,857)	11,391
Interest on revenue bonds and other, net	(9,385)	(57,568)	10,173	(56,780)
Federal rebates on revenue bonds	-	10,552	-	10,552
Amortization of debt discount/premium	319	4,593	(1,271)	3,641
Cost of debt issuance	-	-	-	-
Total other revenues (expenses)	<u>4,937</u>	<u>(36,178)</u>	<u>45</u>	<u>(31,196)</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	12,485	-	-	12,485
CHANGE IN NET POSITION	<u>68,427</u>	<u>21,380</u>	<u>45</u>	<u>89,852</u>
NET POSITION				
Beginning of year, as restated	773,202	296,706	(27)	1,069,881
End of year	<u>\$ 841,629</u>	<u>\$ 318,086</u>	<u>\$ 18</u>	<u>\$ 1,159,733</u>

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

Notes to the Financial Statements (cont.)

CONDENSED SCHEDULE OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018
(AMOUNTS IN THOUSANDS)

	Electric System	Priest Rapids Project	Other	Total
Net cash provided by (used in) operating activities	\$ 94,855	\$ 82,443	\$ (3,434)	\$ 173,864
Net cash provided by (used in) capital and related financing activities	(48,190)	(173,721)	10,174	(211,737)
Net cash provided by (used in) investing activities	(47,606)	41,590	(4,448)	(10,464)
NET INCREASE/(DECREASE) IN CASH	\$ (941)	\$ (49,688)	\$ 2,292	\$ (48,337)
CASH AT END OF YEAR	\$ 3,630	\$ 294	\$ (36)	\$ 3,888
CASH AT BEGINNING OF YEAR	4,571	49,982	(2,328)	52,225
NET INCREASE/(DECREASE) IN CASH	\$ (941)	\$ (49,688)	\$ 2,292	\$ (48,337)

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

Notes to the Financial Statements (cont.)

CONDENSED STATEMENT OF NET POSITION (as restated)

DECEMBER 31, 2017 (AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
ASSETS				
Total current assets	\$ 126,558	\$ 102,443	\$ (4,341)	\$ 224,660
Utility plant, net	591,861	1,453,509	-	2,045,370
Noncurrent	404,999	236,306	(242,903)	398,402
TOTAL ASSETS	1,123,418	1,792,258	(247,244)	2,668,432
Deferred outflows of resources	18,937	8,395	(15,196)	12,136
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,142,355	\$ 1,800,653	\$ (262,440)	\$ 2,680,568
LIABILITIES				
Current	\$ 45,171	\$ 111,413	\$ (2,367)	\$ 154,217
Noncurrent	320,427	1,372,169	(244,851)	1,447,745
TOTAL LIABILITIES	365,598	1,483,582	(247,218)	1,601,962
Deferred inflows of resources	3,556	20,365	(15,196)	8,725
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	369,154	1,503,947	(262,414)	1,610,687
NET POSITION				
Net investment in capital assets	320,285	195,090	246,516	761,891
Restricted	135,726	149,531	2,807	288,064
Unrestricted	317,190	(47,915)	(249,349)	19,926
TOTAL NET POSITION	773,201	296,706	(26)	1,069,881
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 1,142,355	\$ 1,800,653	\$ (262,440)	\$ 2,680,568

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

Notes to the Financial Statements (cont.)

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (as restated)

YEAR ENDED DECEMBER 31, 2017 (AMOUNTS IN THOUSANDS)	Electric System	Priest Rapids Project	Other	Total
OPERATING REVENUES				
Retail energy sales	\$ 188,472	\$ -	\$ -	\$ 188,472
Wholesale revenues, net	54,753	-	-	54,753
Sales to power purchasers at cost	-	168,172	(126,383)	41,789
Other	8,895	-	-	8,895
Total operating revenues	252,120	168,172	(126,383)	293,909
OPERATING EXPENSES				
Depreciation and amortization	35,845	30,361	-	66,206
Other operating expenses	178,203	80,764	(126,383)	132,584
Total operating expenses	214,048	111,125	(126,383)	198,790
NET OPERATING INCOME	38,072	57,047	-	95,119
OTHER REVENUES (EXPENSES)				
Interest and other income	11,756	6,274	(5,197)	12,833
Interest on revenue bonds and other, net of	(8,382)	(54,222)	5,671	(56,933)
Federal rebates on revenue bonds	-	10,556	-	10,556
Amortization of debt expense, discount, and premium	1,305	4,078	(474)	4,909
Cost of debt issuance	(902)	(71)	-	(973)
Total other revenues (expenses)	3,777	(33,385)	-	(29,608)
CONTRIBUTIONS IN AID OF CONSTRUCTION	10,649	-	-	10,649
CHANGE IN NET POSITION	52,498	23,662	-	76,160
NET POSITION				
Beginning of year	720,703	273,044	(26)	993,721
End of year	\$ 773,201	\$ 296,706	\$ (26)	\$ 1,069,881

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

Notes to the Financial Statements (cont.)

CONDENSED SCHEDULE OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017
(AMOUNTS IN THOUSANDS)

	Electric System	Priest Rapids Project	Other	Total
Net cash provided by (used in) operating activities	\$ 76,587	\$ 85,249	\$ (1,023)	\$ 160,813
Net cash provided by (used in) capital and related financing activities	(5,909)	(54,482)	(126,743)	(187,134)
Net cash provided by (used in) investing activities	(70,192)	(20,507)	126,526	35,827
NET INCREASE/(DECREASE) IN CASH	\$ 486	\$ 10,260	\$ (1,240)	\$ 9,506
CASH AT END OF YEAR	\$ 4,571	\$ 49,982	\$ (2,328)	\$ 52,225
CASH AT BEGINNING OF YEAR	4,085	39,722	(1,088)	42,719
NET INCREASE/(DECREASE) IN CASH	\$ 486	\$ 10,260	\$ (1,240)	\$ 9,506

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

Required Supplementary Information (Unaudited)

Schedule of the District's Proportionate Share of the Net Pension Liability (amounts in thousands)

Measurement Date Ended June 30	PERS 1				
	2018	2017	2016	2015	2014
Proportion of the net pension liability	0.493735%	0.509107%	0.524928%	0.544648%	0.574446%
Proportionate share of the net pension liability	\$ 22,050	\$ 24,158	\$ 28,191	\$ 28,490	\$ 28,938
Covered-employee payroll	65,002	63,510	61,646	56,606	63,970
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	33.92%	38.04%	45.73%	50.33%	45.24%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%	61.19%

Measurement Date Ended June 30	PERS 2/3				
	2018	2017	2016	2015	2014
Proportion of the net pension liability	0.622917%	0.639308%	0.650080%	0.679264%	0.706321%
Proportionate share of the net pension liability	\$ 10,636	\$ 22,213	\$ 32,731	\$ 24,271	\$ 14,277
Covered-employee payroll	64,541	62,862	60,733	55,717	62,709
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	16.48%	35.34%	53.89%	43.56%	22.77%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%	93.29%

Required Supplementary Information (Unaudited)

Schedule of the District's Contributions
(amounts in thousands)

	PERS 1							
	2018	2017	2016	2015	2014	2012	2010	2009
Contractually Required Contribution	\$ 3,385	\$ 3,222	\$ 2,985	\$ 2,653	\$ 2,535	\$ 883	\$ 138	\$ 212
Contributions in Relation to the Contractually Required Contribution Subtotal	(3,385)	(3,222)	(2,985)	(2,653)	(2,535)	(883)	(138)	(212)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 66,174	\$ 64,999	\$ 61,575	\$ 59,113	\$ 61,536	\$ 59,498	\$ 57,383	\$ 55,952
Contributions as a Percentage of Covered Employee Payroll	5.12%	4.96%	4.85%	4.49%	4.12%	1.48%	0.24%	0.38%
	PERS 2/3							
	2018	2017	2016	2015	2014	2012	2010	2009
Contractually Required Contribution	\$ 4,927	\$ 4,418	\$ 3,788	\$ 3,293	\$ 3,022	\$ 3,297	\$ 2,807	\$ 3,442
Contributions in Relation to the Contractually Required Contribution	(4,927)	(4,418)	(3,788)	(3,293)	(3,022)	(3,297)	(2,807)	(3,442)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 65,702	\$ 64,444	\$ 60,809	\$ 58,216	\$ 60,489	\$ 57,410	\$ 54,551	\$ 52,424
Contributions as a Percentage of Covered Employee Payroll	7.50%	6.86%	6.23%	5.66%	5.00%	5.74%	5.15%	6.57%

Notes to Schedules

Grant County PUD #2 implemented GASB 68 for the year ended June 30, 2015. Information is presented only for those years for which information is available.

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

NOTE - Changes made to presentation

The PERS 1 UAAL is considered a PERS 1 contribution as it is contributed to that plan. This has been added to the PERS 1 contributions and deducted from PERS 2/3.

PERS Plan 1 UAAL*

GASB 82 - Changes the covered payroll in RSI to the payroll on which contributions are based. Accordingly, PERS 1 will include the payroll of PERS 1 and the payroll of PERS 2/3 when there is a PERS 1 UAAL contribution.

Required Supplementary Information (Unaudited)

**Schedule of Changes in Total OPEB Liability and Related Ratios
(amounts in thousands)**

	2018	2017
Service Cost	\$ 362	\$ 351
Interest on Total OPEB Liability	237	229
Changes of Benefit Terms	-	-
Effect of Economic/Demographic Gains or (Losses)	-	-
Effect of Assumptions Changes or Inputs	-	-
Benefit Payments	(428)	(299)
Net Change in Total OPEB Liability	<u>171</u>	<u>281</u>
Total OPEB Liability - Beginning	<u>6,806</u>	<u>6,525</u>
Total OPEB Liability - Ending	<u>\$ 6,977</u>	<u>\$ 6,806</u>
Covered-Employee Payroll	\$ 68,629	\$ 66,630
Total OPEB Liability as a Percentage of Covered-Employee Payroll	10.17%	10.21%

Notes to Schedule

Information is required to be presented for 10 years. However, until a full 10-year trend is compiled, the District will present information for only those years for which information is available.

Grant County PUD No. 2 implemented GASB 75 effective January 1, 2017.

There are no assets accumulated in a qualified trust to provide benefits under the plan.

APPENDIX C

PROPOSED FORM OF BOND COUNSEL OPINION

January 29, 2020

Public Utility District No. 2 of Grant County, Washington
Ephrata, Washington

Re: Public Utility District No. 2 of Grant County, Washington
Electric System Revenue Refunding Bonds, Series 2020-Q (Taxable) — \$74,975,000

Ladies and Gentlemen:

We have acted as bond counsel to Public Utility District No. 2 of Grant County, Washington (the “District”) and have examined a certified transcript of the proceedings taken in the matter of the issuance by the District of its Electric System Revenue Refunding Bonds, Series 2020-Q (Taxable) in the aggregate principal amount of \$74,975,000 (the “Bonds”), dated their date of initial delivery, issued pursuant to Resolution No. 8933 of the District, adopted on December 10, 2019 (the “Bond Resolution”). Proceeds of the Bonds will be used, together with other available funds of the District, to defease and refund a portion of the District’s outstanding Electric System obligations and pay costs of issuance of the Bonds. Capitalized terms not otherwise defined herein shall have the meanings given such terms in the Bond Resolution.

The Bonds are subject to redemption prior to maturity as provided in the Bond Resolution and the Bond Purchase Contract.

Regarding questions of fact material to our opinion, we have relied on representations of the District in the Bond Resolution and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been legally issued and constitute valid and binding special obligations of the District, both principal thereof and interest thereon payable solely out of a special fund of the District known as the “Electric System Revenue Bond Fund” (the “Bond Fund”), except to the extent that the enforcement of the rights and remedies of the holders of the Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The Bond Resolution is a legal, valid and binding obligation of the District, has been duly authorized, executed and delivered and is enforceable in accordance with its terms, except to the extent that enforcement may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

3. The District has pledged and bound itself to pay into the Revenue Fund all of the Gross Revenue derived by the District from the operation of the Electric System. The District has further pledged and bound itself to set aside from the money in the Revenue Fund and to pay into the Bond Fund certain fixed amounts sufficient to pay the principal, premium, if any, and interest on the Bonds and all other Parity Bonds and Parity Lien Obligations as the same become due. The Bond Resolution pledges as security for the payment of the principal of, premium, if any, and interest on all Parity Bonds and Parity Lien Obligations, subject only to the provisions of the Bond Resolution restricting or permitting the application thereof for the purposes and on the terms and conditions set forth therein: (a)

the Gross Revenue (exclusive of any money credited to a fund or account for the purpose of paying arbitrage rebate to the federal government and subject to prior application to pay Operating Expenses), and (b) the money and investments, if any, credited to the Revenue Fund, the Bond Fund, and the R&C Fund and the income therefrom. The District has reserved the right to issue Future Parity Bonds and Parity Lien Obligations on the terms and conditions set forth in the Bond Resolution.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion herein relating thereto, or relating to the undertaking by the District to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,
PACIFICA LAW GROUP LLP

APPENDIX D

DTC AND BOOK-ENTRY SYSTEM

The following information has been provided by DTC. The District makes no representation regarding the accuracy or completeness thereof. Beneficial Owners should therefore confirm the following with DTC or the Direct Participants (as hereinafter defined). Language in [brackets] with ~~strike-through~~ has been deleted as permitted by DTC as it does not pertain to the Bonds.

THE DEPOSITORY TRUST COMPANY

SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE

(Prepared by DTC--bracketed material may apply only to certain issues)

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

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

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

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual

Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

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

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

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

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

APPENDIX E

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 2019 population of 24,220, and Ephrata, the County seat, is the second largest with a 2019 population of 8,180.

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 E-1
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⁾
2019	98,740	-	\$ 1,392,977	-	-
2018	97,350	-	2,489,444	\$ 98,629	-
2017	95,630	\$ 38,308	1,877,193	70,032	\$ 3,645,296
2016	94,610	38,224	1,773,257	66,113	3,589,388
2015	93,930	38,324	1,766,672	64,317	3,578,738
2014	92,900	34,729	1,819,118	72,095	3,224,188
2013	91,800	34,243	1,818,642	66,390	3,144,242
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

⁽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; 2017 is most recent data available. The 2017 per capita personal income for the State was \$57,896, and the total personal income was \$428,765,189.

⁽³⁾ *Source:* Washington State Department of Revenue. The 2019 taxable retail sales represents the first and second quarters only.

⁽⁴⁾ *Source:* Grant County Building Department. Most recent data available.

Table E-2
GRANT COUNTY TOP 25 PROPERTY OWNERS BY ASSESSED VALUE⁽¹⁾

Taxpayer	Business	Assessed Valuation	% of County Assessed Valuation⁽²⁾
Microsoft Corporation	Data Center/Technology	\$1,407,124,080	11.86%
Yahoo Holdings Inc.	Data Center/Technology	175,302,630	1.48
REC Solar Grade Silicon LLC	Chemical Manufacturing	145,193,260	1.22
Boeing Co.	Aerospace	125,281,700	1.06
Oath Holdings Inc. (fka Yahoo Inc.)	Data Center/Technology	117,697,370	0.99
Vantage Data Centers LLC	Data Center/Technology	88,569,125	0.75
H5 Data Centers- Quincy LLC	Data Center/Technology	81,310,110	0.69
Intergate Quincy LLC	Data Center/Technology	80,320,960	0.68
SGL Composite LLC	Carbon Manufacturing	71,024,615	0.60
GI Tare Quincy LLC	Data Center/Technology	70,444,625	0.59
BNSF Railway Company Tax Dept.	Railroads	67,734,600	0.57
Intergate Quincy II, LLC	Data Center/Technology	64,679,000	0.55
Intuit, Inc.	Data Center/Technology	63,689,890	0.54
Xyleco Realty WA, LLC	Real Estate	56,967,465	0.48
Moses Lake Industries Inc.	Chemical Manufacturing	53,800,000	0.45
Lamb-Weston Inc.	Potato Products	52,472,350	0.44
Viterra USA LLC	Agriculture	51,156,465	0.43
J. R. Simplot Co.	Potato Products	50,931,000	0.43
Access Business Group LLP	Personal Care Manufacturer	46,329,335	0.39
Inflation Systems Inc.	Air Bag Products	43,940,245	0.37
Lineage Columbia, LLC	Warehousing/Logistics	40,217,880	0.34
Chemi-Con Materials Corp.	Chemical Manufacturing	39,154,555	0.33
Lamb-Weston BSW, LLC	Potato Products	37,000,000	0.31
US Services LLC	Transportation Services	36,793,515	0.31
Juniper Networks Inc.	Data Center/Technology	35,081,440	0.30
		<u>\$ 3,102,216,215</u>	<u>26.14%</u>

⁽¹⁾ Total County assessed valuation for 2018 taxes is \$11,866,676,236.

⁽²⁾ May not add due to rounding.

Source: Grant County Assessor for tax collection year 2018.

**Table E-3
GRANT COUNTY MAJOR EMPLOYERS**

Employer	Product/Service	Employees
Moses Lake School District #161	Education	1300
Genie Industries, Inc.	Aerial Work Platforms	946
Grant County Government	Government	695
The District ⁽¹⁾	Electric Utility	655
Samaritan Healthcare	Healthcare	550
Quincy School District #144	Education	540
Mitsubishi Aircraft Corporation	Aerospace Flight Testing	400
Lamb Weston, Quincy	Frozen Potato Processing	386
Microsoft	Data Center	376
Moses Lake Industries	Industrial Chemicals	375
Quincy Foods, LLC	Frozen Vegetable Processing	360
Ephrata School District #165	Education	340
Plant National Frozen Foods	Corn & Pea Processing	313
Confluence Health	Healthcare	310
J.R. Simplot Co.	Frozen French Fries & Dehydrated Potato Products	292
Lamb Weston, Warden Plant	Frozen French Fries	290
Moses Lake Community Health	Healthcare	281
Big Bend Community College	Education	192
Oregon Potato Co.	Dehydrated Potato Flake Processing	190
Joyson Safety	Automotive Air Bags	189
D & L Foundry, Inc.	Manhole Cover Manufacturing	182
Columbia Basin Hospital	Healthcare	171
Lineage Logistics	Cold Storage	160
SGL Group	Carbon Fiber	129
Basic American Foods	Dehydrated Potato Processing	110

⁽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 January 2018, and the District.

**Table E-4
GRANT COUNTY RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT⁽¹⁾**

	Annual Averages					
	2014	2015	2016	2017	2018	2019⁽²⁾
Total Labor Force	44,845	44,711	44,567	45,057	46,386	47,370
Employment	41,513	41,432	41,422	42,240	43,492	44,082
Unemployment	3,332	3,279	3,145	2,817	2,894	3,288
Unemployment Rate	7.4%	7.3%	7.1%	6.3%	6.2%	6.9%

⁽¹⁾ Not seasonally adjusted.

⁽²⁾ Average through November, 2019.

Source: Washington State Employment Security Department, Labor Market and Economic Analysis Branch.

**Table E-5
GRANT COUNTY NONAGRICULTURAL EMPLOYMENT⁽¹⁾**

NAICS Industry Title	Annual Averages					
	2014	2015	2016	2017	2018	2019 ⁽²⁾
Total Nonfarm	28,650	28,940	29,180	29,240	30,770	30,610
Total Private	20,380	20,750	20,870	20,710	22,180	22,140
Goods Producing	6,220	6,280	6,090	6,090	6,300	5,910
Mining, Logging & Construction	1,230	1,200	1,230	1,300	1,510	1,420
Manufacturing	4,990	5,090	4,860	4,790	4,790	4,480
Services Providing	22,430	22,660	23,090	23,150	24,480	24,700
Trade, Transport. & Utilities	5,750	5,960	6,190	5,910	6,000	6,070
Information & Financial						
Activities	1,060	1,090	1,120	1,100	1,390	1,410
Professional & Business Services	1,560	1,740	1,690	1,740	2,460	2,510
Education & Health Services	2,820	2,730	2,760	2,740	2,880	2,920
Leisure & Hospitality	2,400	2,380	2,460	2,560	2,610	2,760
Government	8,270	8,190	8,310	8,520	8,590	8,480

⁽¹⁾ Not seasonally adjusted.

⁽²⁾ Average through November, 2019.

Source: Washington State Employment Security Department, Labor Market and Economic Analysis Branch.

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”), dated January 29, 2020, is executed and delivered by PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY, WASHINGTON (the “District”) for the benefit of the Owners and Beneficial Owners of the Bonds in connection with the issuance of the Bonds (as hereinafter defined).

WHEREAS, pursuant to Resolution No. 8933 adopted by the District’s Board of Commissioners on December 10, 2019 (the “Resolution”), the District has authorized the issuance of its Electric System Revenue Refunding Bonds, Series 2020-Q (Taxable) (the “Bonds”); and

WHEREAS, the underwriters with respect to the Bonds (the “Underwriters”) are required to comply with the provisions of Rule 15c2-12 adopted by the Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended (the “1934 Act”);

NOW THEREFORE, the District covenants and agrees for the benefit of the Owners and Beneficial Owners of the Bonds as follows:

SECTION 1. Definitions. The following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has or shares the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, or otherwise make investment decisions concerning ownership of, any Bonds (including persons holding bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Bond Register” shall have the meaning provided in the Resolution.

“Business Day” shall mean a day which is not a Saturday, a Sunday or legal holiday on which banking institutions in the state of Washington or the state of New York are closed.

“Electric System” shall have the meaning set forth in the Resolution.

“Financial Obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of (i) or (ii). The term “financial obligation” does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

“Official Statement” shall mean the Official Statement with respect to the Bonds dated January 8, 2020.

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

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

“Repository” or “MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB

or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

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

“Treasurer” shall mean the Treasurer of the District.

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

SECTION 3. Provision of Annual Reports. The District shall, not later than on or before the end of nine months after the end of the District’s fiscal year (commencing no later than September 30, 2020 for the fiscal year ended December 31, 2019), provide or cause to be provided to each Repository copies of an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that if any audited financial statements are not then available, the District shall provide unaudited financial statements substantially in the same format, and audited financial statements as soon as they become available. The District’s current fiscal year ends December 31. If the fiscal year changes, the District shall give notice of such change in the same manner as for a Listed Event under this Disclosure Certificate.

All notices, financial information and operating data required by this Disclosure Certificate to be provided to the Repository must be in an electronic format as prescribed by the MSRB. All documents provided to the Repository pursuant to this Disclosure Certificate must be accompanied by identifying information as prescribed by the MSRB.

SECTION 4. Content of Annual Reports.

- (a) The District’s Annual Report shall contain or include by reference the following:
 - (i) the audited financial statements of the Electric System prepared in accordance with generally accepted accounting principles applicable to government entities, with regulations prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) and substantially in accordance with the system prescribed by the FERC; provided, that if the Electric System’s financial statements are not yet available, the District shall provide unaudited financial statements in substantially the same format, and audited financial statements when they become available;
 - (ii) the outstanding long term indebtedness of the Electric System, the Priest Rapids Project and any other system of the District which provides power or capacity to the Electric System;
 - (iii) Electric System retail customers, energy sales, peak loads and revenues;
 - (iv) Electric System operating results and debt service coverage on the outstanding Parity Bonds;
 - (v) Electric System energy requirements, resources and power costs;
 - (vi) the aggregate amount and percentage of total energy sold and of retail revenues provided by the Electric System’s ten largest customers; and
 - (vii) gross generation, net energy, disposition of net energy, maximum one-hour production, average production costs, plant factor and annual availability for the Priest Rapids Project.

The annual financial information may be provided in a single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC. Items (ii)-(vii) will be required only to the extent that such information is not included in the annual financial statements provided for in (i).

(b) Any or all of the items listed in subsection (a) may be incorporated by specific reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository or the SEC. If the document incorporated by reference is a final official statement, it must be available from the Repository. The District shall clearly identify each such other document so incorporated by reference.

The contents, presentation and format of the Annual Report may be modified from time to time as determined in the judgment of the District to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the District or to reflect changes in the business, structure, operations, legal form of the District or any mergers, consolidations, acquisitions or dispositions made by or affecting the District; provided that any such modifications shall comply with the requirements of the Rule; provided, further, that if the respective Annual Report is modified to conform to changes in accounting or disclosure principles, the annual financial information for the year in which the change is made should present a comparison between the financial statements or information prepared on the basis of the new accounting or disclosure principles and those prepared on the basis of the former accounting or disclosure principles.

SECTION 5. Reporting of Certain Events.

(a) The District agrees to provide or cause to be provided to the Repository, in a timely manner, not in excess of 10 Business Days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds (each, a “Listed Event”):

- Principal and interest payment delinquencies;
- Non-payment related defaults, if material;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- Modifications to the rights of Bondholders, if material;
- Bond calls, if material, and tender offers;
- Defeasances;
- Release, substitution, or sale of property securing repayment of the Bonds, if material;
- Rating changes;
- Bankruptcy, insolvency, receivership or similar event of the District;
- The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- Incurrence of a Financial Obligation of the District, if material, or agreements to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and
- Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

(b) *Notice Upon Failure to Provide Financial Data.* The District agrees to provide or cause to be provided, in a timely manner, to the Repository, notice of its failure to provide the Annual Report described in Section 4 above on or prior to the date stated in Section 3 above.

SECTION 6. Termination of Reporting Obligation. The District's obligations to provide Annual Reports and notices of Listed Events shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate.

SECTION 8. Modification. Any provision of this Disclosure Certificate shall be null and void if the District (1) obtains an opinion of nationally recognized bond counsel to the effect that the portion of the Rule that requires that provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds and (2) notifies the MSRB of such opinion and the cancellation of all or any portion of this undertaking.

Notwithstanding any other provision of this Disclosure Certificate, the District may amend this undertaking, and any provision of the undertaking may be waived, in accordance with Rule, which, as currently interpreted by the SEC, requires that (i) the amendment or waiver be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the District, or type of business conducted; (ii) the undertaking, as amended or waived, would have complied with the requirements of Rule at the time of the primary offering, after taking into account any amendments or interpretations of Rule, as well as any change in circumstances; and (iii) the amendment or waiver does not materially impair the interests of holders of the Bonds, as determined either by parties unaffiliated with the District (such as bond counsel) or by the approving vote of holders of the Bonds.

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

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

SECTION 10. Default. A Registered Owner's and the Beneficial Owners' right to enforce the provisions of this Disclosure Certificate shall be limited to a right to obtain specific enforcement of the District's obligations under this Disclosure Certificate, and any failure by the District to comply with the provisions of this Disclosure Certificate shall not be an event of default under the Bonds or the Resolution.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Underwriters, the Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 12. Governing Law. This Disclosure Certificate shall be governed by the laws of the state of Washington determined without regard to the principles of conflict of law.

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

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

By: _____

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