



## 2020 Annual Report

# Contents

<b>1</b>	<b><i>Commission Greeting</i></b>
<b>2</b>	<b><i>CEO/General Manager's Message</i></b>
<b>3</b>	<b><i>Year in Review</i></b>
<b>20</b>	<b><i>Executive Leadership Team</i></b>
<b>22</b>	<b><i>Financial Statements</i></b>
22	<i>Independent Auditors' Report</i>
24	<i>Management's Discussion and Analysis (Unaudited)</i>
34	<i>Combined Statements of Net Position</i>
36	<i>Combined Statements of Revenues, Expenses, and Changes in Net Position</i>
38	<i>Combined Statements of Cash Flows</i>
40	<i>Notes to Combined Financial Statements</i>
60	<i>Required Supplementary Information (Unaudited)</i>
<b>62</b>	<b><i>Supplemental Schedules (Unaudited)</i></b>
62	<i>Electric System Statements of Revenues, Expenses, and Debt Service Coverage</i>
63	<i>Electric System Revenue and Statistical Data</i>
64	<i>Water System Statements of Revenues, Expenses, Debt Service Coverage, and Statistical Data</i>



# Greetings

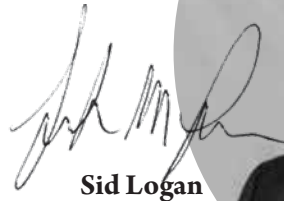
## *from the Commissioners*

**A**s your publicly elected board, we're focused on providing our customers with affordable and reliable power and water that's safe and environmentally sustainable.

The COVID-19 pandemic challenged us to be nimble and creative, and tested our resolve as a commission. With health and safety as priorities, we held our meetings virtually to keep connected with customers and PUD employees. We adapted quickly and worked together to make decisions that supported our customers and continue moving the utility forward.

As a public power utility, the PUD takes great pride in serving the people of Snohomish County and Camano Island. Public power has deep roots in our region, and we are proud to give our customers an active voice in the PUD's policies and services. We are the 12th largest public utility in the U.S. and the second largest in Washington state, serving almost 361,000 electric customers and more than 22,000 water customers.

We are pleased to share this 2020 annual report, which details the many successes and accomplishments of our employees and customers during a very unique 12 months.

  
Sid Logan



  
Rebecca Wolfe



  
Tanya "Toni" Olson



# Message from the CEO/GM

*John Haarlow*



**L**ike the rest of the world, 2020 turned our lives upside down. The global pandemic brought the need to reimagine our everyday lives and reexamine what is most important.

At the PUD, we are integral to energizing life in our communities. As customers shifted to working from home or helping their kids go to school online, we powered the transition. Despite shuttering our offices to keep employees and customers safe, we connected with our customers in ways that we never had before.

As we look back on a challenging 2020, I don't want to lose sight of the amazing achievements made by our PUD staff in difficult circumstances. Working together, we continued to deliver reliable electricity and water to our customers, moved forward on crucial projects and even passed a budget with no general rate increase for the fourth consecutive year.

Team PUD members were flexible when circumstances changed and stepped up when times demanded it. We learned new ways to do things and got better at what we do every day. We transitioned to work-from-home and didn't miss a beat.

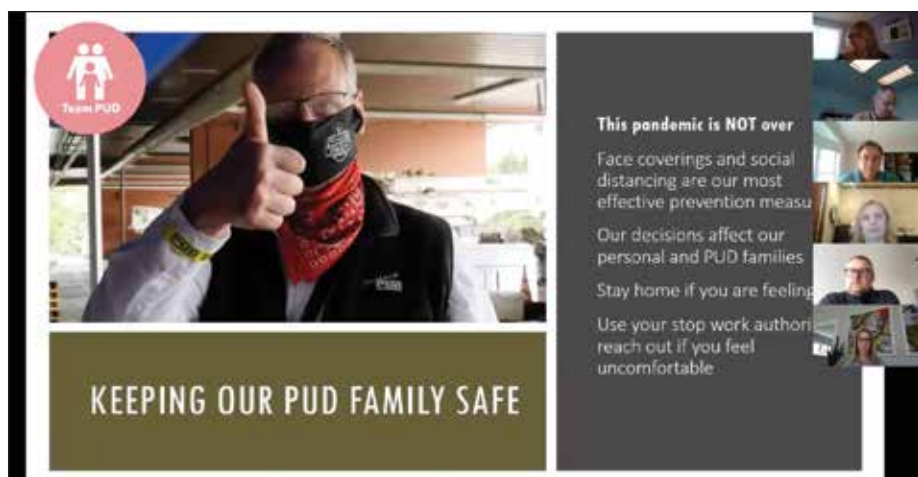
And our customers were there for us! They were patient, supportive and let us know when they needed our help. Soon after the pandemic hit, we set up our Community Support Plan to help customers affected negatively by the pandemic pay their bills. More than 15,000 residential and small business customers received our help. I'm proud that we were able to help our communities in their time of need.

Despite the challenges, we moved forward on a variety of innovative

programs in 2020. Our Commission approved our Connect Up project, which is the most significant infrastructure and technology project the PUD has ever undertaken. We also performed significant work on our Arlington Microgrid project and Clean Energy Center, which will boost reliability and demonstrate innovative technologies.

We moved forward on ways to support electric vehicles and emerging energy technologies that will change our customers' lives, as well as continued planning for a future in which we will provide our customers with 100% clean energy.

There is so much happening at the PUD. Despite the virus, these are exciting times. Still, no matter what we are working on, our top commitment remains to safely deliver affordable, reliable and environmentally sustainable power and water to every customer every day.



*Uncertainties around COVID-19 made communication more vital than ever in 2020. Along with video resources for customers, All-Employee Meetings transitioned online. Above, a still image from one held on March 8, 2020.*



**T**he PUD's critical workforce continued to report for duty in 2020 to keep the lights on and water flowing to customers and maintain the PUD's mission to deliver reliable and safe electricity and water to its customers.

The PUD maintained strict safety guidelines for its critical workforce—including mandatory face-coverings, social distancing and tool sanitizing—to ensure the continuation of service. With more people working and doing school from home, crews also worked on projects that required outages at night to limit disruptions.

Work on the Arlington Microgrid continued in 2020. The future microgrid will ensure reliability for critical PUD infrastructure and technology in the case of an earthquake or other



*COVID-19 led to important new safety protocols for crews, including conducting all meetings outdoors and use of face-coverings.*

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emergency. Despite delays due to the pandemic, the lithium-ion battery storage system and Vehicle-to-Grid (V2G) bi-directional chargers were installed.

The PUD's multi-year North County Reliability Project was concluded in 2020, bringing better reliability to communities in Arlington, Oso and Darrington. The project built a new substation and modernized two others to alleviate strain on a crowded system and provide more options for re-routing power during outages and maintenance to minimize impacts to customers.

In Monroe, the PUD forged a new partnership with Qualco, a non-profit organization that produces power created by an anaerobic biodigester. Under the new agreement, instead of just purchasing the carbon-free power produced, the PUD will own and operate a new generator that will increase the amount of electricity produced.

The PUD also completed construction of several new substations: Swamp Creek Switching Station, Cedar Valley Substation and Port Gardner Substation. The Substation team



*Wiremen stand in front of the just-completed battery storage system at the Arlington Microgrid project, October 23, 2020.*

also rebuilt Floral Hills Substation and replaced key equipment at Woods Creek Substation. Projects were necessary to bring increased energy demand to growing areas in Lynnwood, Stanwood, Monroe and on the Everett Waterfront.

Successful use of innovative tools

showed how technology can aid reliability. During a storm in September, automated devices that are part of the PUD's Distribution Automation pilot system in the Lake Goodwin area performed as they were supposed to, shortening outages to just minutes instead of hours.

*The newly completed Swamp Creek Switching Station, near Lynnwood.*





**T**he PUD values the safety of its employees and customers above everything else. In 2020, amid a global pandemic, we continued to deliver reliable electricity and water and do it safely.

Despite the unique and challenging issues brought on by the pandemic, the PUD finished 2020 with the best safety record since it started keeping safety statistics in 1985. The PUD also recorded the lowest number of vehicle-backing accidents and had multiple teams record zero vehicle accidents.

Soon after the first COVID case arrived in

*A great team effort this year! Stepping up to manage the many unforeseen demands of COVID-19 didn't stall workaday safety needs one bit.*



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Snohomish County, the PUD closed its offices to the public, made masks and protection equipment mandatory for all employees and shifted two-thirds of its workforce to work-from-home.

To respond to the pandemic, the PUD established an Incident Management Team that met regularly and made key decisions on implementing its Pandemic Response Plan. Later in the year, the Continuity of Operations Team took over, tasked with evaluating how the PUD would distribute vaccines, return its workforce to offices and continue pandemic operations.

Outfitted with full personal protective equipment, the PUD's Custodial team followed strict COVID-19 cleaning protocols in vehicles, at worksites and in offices. The PUD set up contact-tracing capabilities by installing check-in stations at all PUD offices and worksites.

All PUD safety training was moved online, including the utility's annual



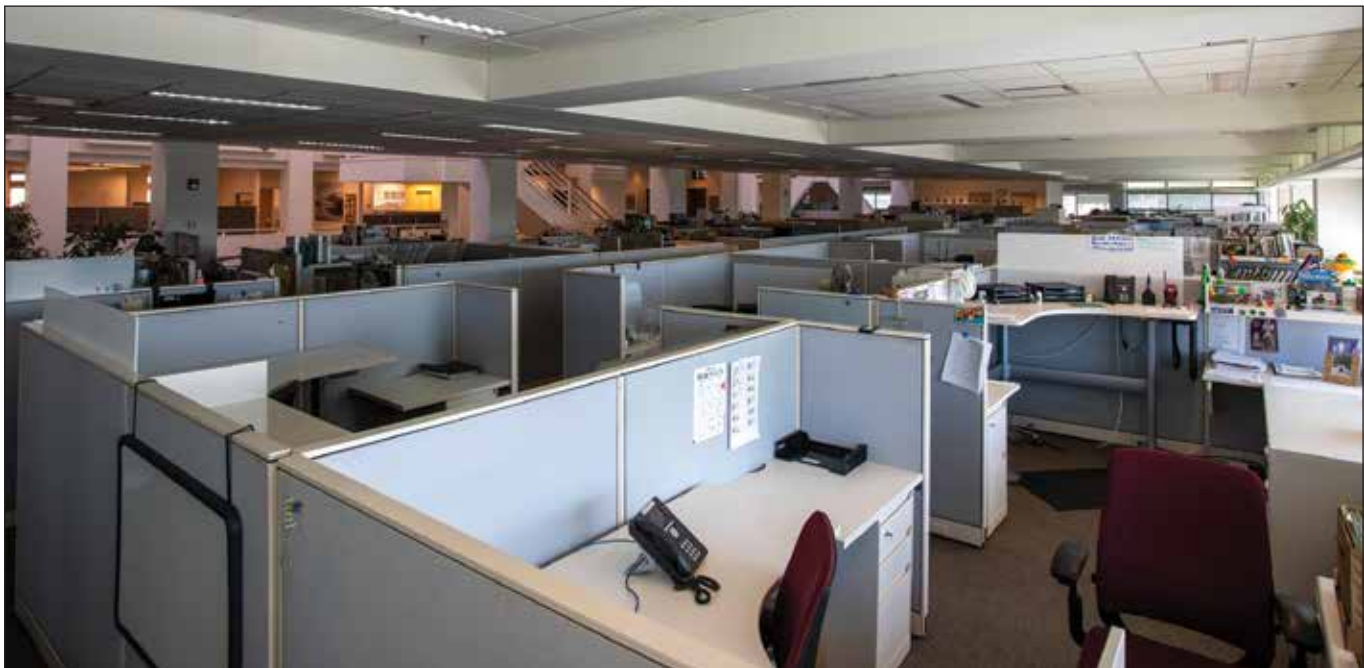
*John Haarlow confirms he is symptom-free at one of the PUD's electronic check-in stations installed in May 2020.*

Safety Day.

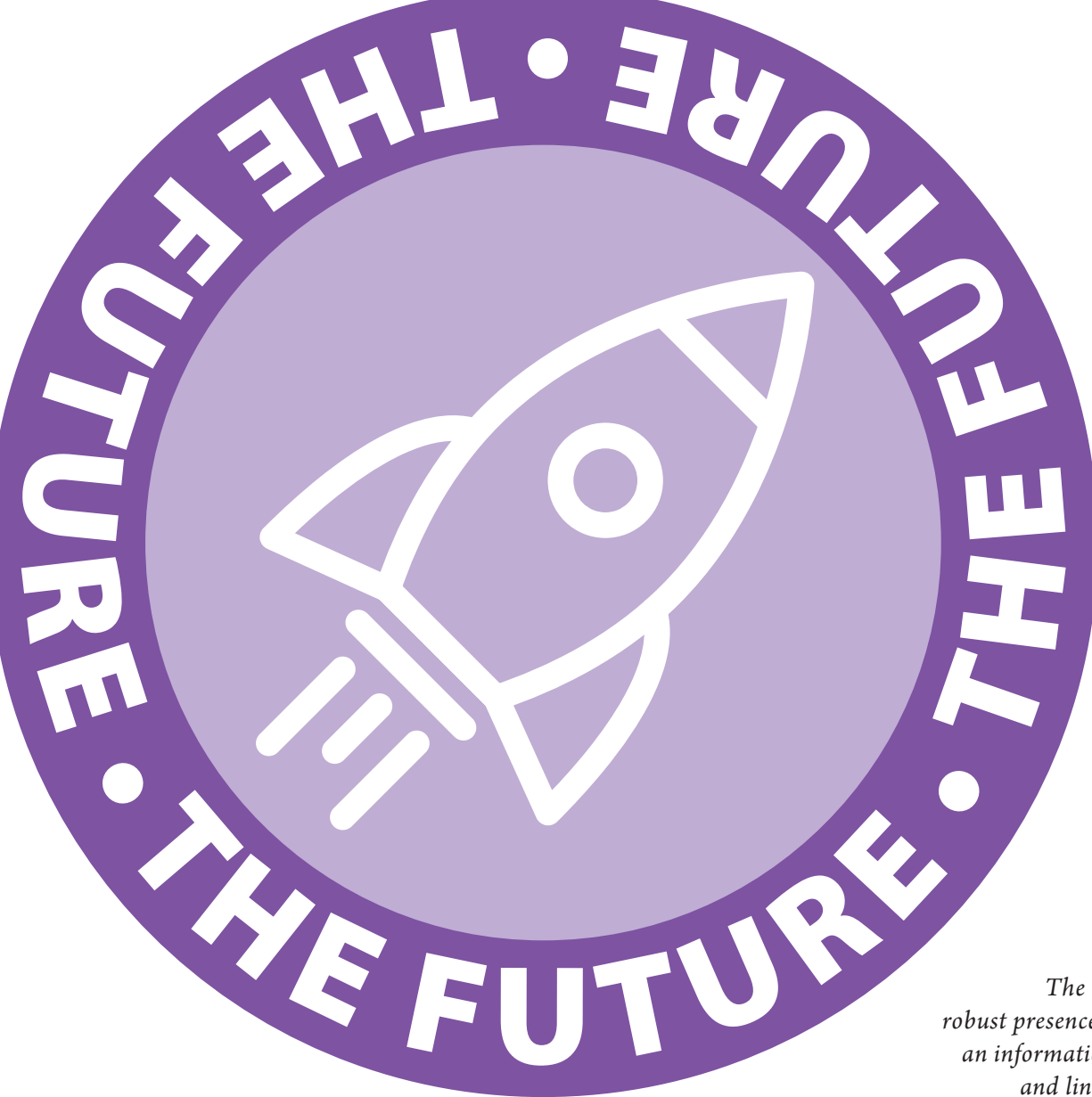
PUD Customer Service Representative Joni Wilburn rushed to the aid of a man she saw collapse in a parking lot. Joni, who used her first-aid training to make sure the man experienc-

ing a seizure did not further injure himself, credited the PUD's training for preparing her for the situation.

*For everyone's safety and to safeguard core functions, all employees who could work at home transitioned in March 2020.*







*The Connect Up program has a robust presence on Snopud.com, including an informational video, timeline, Q&As and link to an newsletter sign-up.*

**F**or the PUD, the future is now. The PUD launched a variety of initiatives and projects in 2020 that will help transform the PUD into a utility that is ready to take on the challenges of the next 50 years.

In 2020, the PUD's Board of Commissioners approved the utility's Connect Up program. The infrastructure and technology project includes installation of new meters capable of two-way communication. These meters will give customers new options to take control of their energy usage, including detailed energy usage information, innovative rate designs and improved outage detection.



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Electric transportation promises to be an important part of the PUD's future. In 2020, the PUD's Board of Commissioners approved an Electric Transportation Plan that will help enable customer Electric Vehicle (EV) adoption, optimize the grid for EV charging and build an EV community through outreach.

The PUD partnered with FleetCarma on a pilot study to collect driving and charging data from its customers, and launched a customer incentive on chargers purchased through its Marketplace. Using funding from a Washington State Department of Ecology grant, the PUD developed plans to build a pair of DC fast chargers outside its headquarters in downtown Everett.

To better understand innovative rate designs, the PUD launched a time-of-day rate pilot for businesses and approved two residential time-of-day rate and demand response pilots. The pilots will allow the PUD to study how effective time-of-day rate designs and demand response programs will be at shifting electricity usage off-peak to alleviate short-term capacity needs.

At the Arlington Microgrid, the PUD installed a 1 MW/1.4 MWh lithium-ion battery energy storage system that will store the energy produced by the hundreds of solar panels just feet away and allow the microgrid to detach from the grid. Once complete, the Arlington Microgrid will create clean backup power for PUD facilities and data infrastructure.

The PUD also installed a pair of Vehicle-to-Grid (V2G) bi-directional chargers at the microgrid. The



*One of the Integrated Resource Plan meetings with community stakeholders. This one was the last before the pandemic made face-to-face meetings impossible (February 2020).*

chargers will allow for the PUD to charge and discharge energy from two Nissan LEAFs, acting as additional battery storage for the microgrid, as well as study the use of bi-directional chargers.

To plan for how to provide reliable electricity to its customers in

20 years, the PUD launched its 2021 Integrated Resource Plan process in early 2020. For the first time ever, the team incorporated customer feedback in the visioning process and the state's Clean Energy Transformation Act, which mandates 100% clean energy by 2045.



*A Nissan LEAF charges at the Arlington Microgrid, December 10, 2020. The almost-complete Clean Energy Center is in the background.*





**C**ustomer experience looked quite different in 2020. Instead of daily face-to-face interactions with customers, PUD employees assisted customers in more creative ways to ensure safety and a continuity of strong customer experience during the COVID-19 pandemic.

Despite closing its offices in March due to health and safety concerns, the PUD continued to serve customers through its call center and communicated important updates through videos with CEO/GM John Haarlow, a COVID-19 newsletter and its website.

The PUD also expanded payment options after pausing meter reading during the early months of the pandemic. Instead of receiving an estimated bill, customers were given the option to email a photo of their meter to the PUD or join the



*On March 23, 2020, the PUD launched a special Community Support Plan to help customers adversely affected financially by the COVID-19 pandemic.*

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## PUD's Budget Payment Plan.

In response to the COVID-19 outbreak and subsequent economic fallout, the PUD developed a Community Support Plan to help customers struggling to pay electric and water bills. The PUD helped approximately 15,000 customers and issued \$3.1 million worth of bill credits through this plan.

Building on changes made in 2019, the PUD expanded eligibility and increased most discount amounts of its Income-Qualified Assistance Program in July 2020. Under the program's new guidelines, the PUD helped 14,185 customers in the final six months of the year, an increase of nearly 2,000 customers from the year before.

PUD leadership continued to focus on building out customer communication channels to better serve its customers in 2020. The launch of MySnoPUD gave customers new and expanded online benefits. Through the new site, customers can compare their energy and water usage over time, review their billing history, adjust communication preferences, sign up for text alerts and more. The PUD plans to continue making significant upgrades in the years to come.

The PUD also continued to provide customers with tips and strategies on cold-weather conservation, storm preparation and warnings about utility scams.

Ground was broken and construction is substantially complete on the PUD's Clean Energy Center, which, when complete, will host tours for students and community members to learn about emerging energy technologies.

*MySnoPUD, the PUD's new customer self-service site, launched in September 2020. Along with bill payment options, it offers energy-use information and more.*



*During the time meter reading was paused, the PUD invited customers to submit a meter photo if they were uncomfortable with an estimated reading.*



*As meter reading resumed, the Customer Service team proactively reached out to customers whose bills appeared to have been affected by adjustments.*







**T**he PUD's Energy Services team's robust energy-efficiency programs helped reduce overall energy needs by more than 53 million kilowatt-hours (kWh) in 2020, saving customers approximately \$5 million. By reducing the demand for electricity, the PUD is better able to keep rates steady and ensure there is enough energy to serve all customers—especially during peak usage. The PUD helped customers lower their bills as they dealt with significant challenges during the COVID-19 pandemic. Additionally, Energy Services was able to further the PUD's Electric Transportation Plan by offering incentives for customers with electric vehicles.

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*Free energy-saving bundles were popular items for both residential and commercial customers in 2020.*

In response to the impacts of COVID-19 on economically vulnerable populations, the PUD provided over 4,000 EKITs, consisting mainly of LEDs, to welcome customers new to the Income-Qualified Assistance Program. These EKITs resulted in customers saving almost 200,000 kWh.

All residential customers were able to access one of two free energy-saving bundles as part of the PUD's COVID-19 relief efforts. Bundles included items such as LEDs, an advanced power strip, bathroom aerators and night lights. Between May and December 2020, the PUD distributed over 35,000 bundles to customers (10% of its Residential customer base), resulting in almost 5 million kWh saved.

Business customers also benefited from the PUD's energy-efficiency and COVID-19 relief efforts. The PUD offered three bundles of energy-efficiency products for local businesses; each bundle targeted a separate segment of customers that were highly impacted by the pandemic—commercial kitchens, retail establishments, and office spaces. Business customers claimed 822 bundles for a kWh savings of almost 2 million kWh. These efforts are ongoing into 2021 so that the PUD can continue to support the business community during the COVID-19 crisis.

The PUD's Electric Transportation Plan is pivotal to achieving a future with greater integration of distributed energy resources to meet the changing needs of our customers. The PUD's plan describes key strategies that establish continued growth of electric transportation in Snohomish County and



*The PUD headquarters in Everett—also known as the Electric Building—will soon be home to a pair of DC fast chargers for electric vehicles.*

Camano Island.

Snohomish PUD was awarded a grant through the WA State Department of Commerce, Clean Energy Fund to install two DC fast chargers for electric vehicles (EVs) at the Electric Building. These chargers are the first of their kind available to the public in a critical location adjacent to I-5 and Highway 2.

Starting in August 2020, the PUD provided incentives to customers with EVs to purchase smart EV chargers with the functionality to link up with future demand response programs being offered by the PUD, such as advanced rate designs geared toward off-peak charging.

The PUD's Energy Services division partnered with FleetCarma to launch a program for EV customers to share charging data to better inform the PUD's future demand response

efforts and to develop future incentives.

The PUD continues to bring value to all customers by developing strategic energy innovations, a suite of programs to help all customer segments manage consumption, and increased return on investments by limiting costly infrastructure build-out.



*Energy Saver Kits were also donated to local food banks in May.*





**P**art of the PUD's mission is to deliver affordable power and water to customers. A continued conservative approach to financial management, including a strong focus on internal cost-control measures, in 2020 helped uphold that mission and other fiscal strategic priorities, creating financial stability for the utility despite the increased challenges brought on by the COVID-19 pandemic.

In 2020, revenue bond ratings for the Electric, Generation and Water Systems were all affirmed at Aa2 by



*For the fourth year in a row, the PUD is able to hold rates steady for customers.*

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Moody's Investor Service. The agency cited the PUD's credit quality to its long-term supply agreements with Bonneville Power Administration, the utility's conservative management, and a decline in outstanding debt. The PUD has now maintained Aa2 rating from Moody's for 2 years.

Moody's rating and sustained strong ratings from Standard & Poor's and Fitch will help the PUD secure lower interest rates when it sells bonds to raise capital for future projects.

As a not-for-profit utility, the PUD's rates are set to cover its cost of doing business. That includes money for public benefits (including fish and wildlife programs), infrastructure and reliability capital projects. By re-investing money in the community through energy-efficiency efforts and energy-assistance programs, the PUD partners with those in need. Additionally, in 2020 the PUD was ahead of the curve on providing relief to customers impacted by COVID-19, including stopping late fees, discontinuing shut-offs and establishing a Community Support Plan to provide relief to those in dire financial need.

Continuous efforts by employees and management to control costs have allowed the PUD's Board of Commissioners to avoid a general rate increase for the fourth year in a row.

The PUD's residential electric rate remains 10.4 cents per kilowatt-hour (kWh), keeping it competitive with other Northwest electric utility rates and below the national average of 13.35 cents/kWh.

The PUD's electric and water customer base grew by nearly 5,000 and 500 customers, respectively, in 2020.

The PUD continued to receive clean audit opinions despite the Finance department transitioning to exclusively remote work in March. Staff maintained daily operations while also managing increased responsibilities—

such as acquiring adequate personal protective equipment, hand sanitizers, masks, etc.—to make sure that field workers could maintain continuity of operations.



*The population served by the PUD's electric and water service continued to grow in 2020.*



*As COVID-19 took hold, the Finance team had to dedicate extra time to ensure the Warehouse team had adequate stocks of protective equipment.*



**T**he PUD is proud of its longstanding commitment to environmental sustainability, striving daily to protect the region's natural resources and wildlife without impact to the quality of services provided to customers. This commitment was formalized with the roll-out of the utility's Environmental Commitment document, identifying the PUD's role and priority in being an environmental steward in its daily operations, maintenance and future planning activities.

The PUD's Environmental Affairs, Natural Resources, and Facilities teams, among others, are central to this mission, leading efforts to reduce pollution, increase recycling, ensure worker and customer health and safety, and promote sustainable resources and practices.



## Sustainability

*The logo above is for a PUD team dedicated to spreading sustainability facts, news and resource information to co-workers.*

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In 2020, PUD staff made significant progress in the planning effort for the Sustainability Center at the PUD's Woods Creek Hydroelectric Project. When completed, the Woods Creek Sustainability Center will offer enhanced educational opportunities to students across the county regarding hydroelectric power generation and integration with other renewable energy resources for sustainable energy production, natural resources protection and enhancements, and food-generating low-maintenance edible plantings. The food forest planning is a collaborative effort with the Snohomish Conservation District.

Staff also worked to expand recycling efforts to include used wood poles and crossarms in the future. These materials are generated each year in significant volumes, and a program to allow for the appropriate reuse for fence posts and landscape timbers is being considered. Once implemented, these articles would be able to have a much longer service life through reuse.

The PUD also made progress developing multiple environmental training courses for staff through the Environmental Learning Program. These training courses help staff complete work in environmentally sensitive areas, and design around or mitigate/minimize impacts in sensitive areas such as critical areas, wetlands, and land with cultural resources.

Having purchased electricity from Qualco for several years, the PUD is now partnering with the nonprofit organization to produce renewable energy. By digesting farm manure and other local hydrocarbons, the farm reduces the release of greenhouse gasses and undesirable runoff to local waterways,

while producing solids with an accelerated delivery of usable nutrients to its fields.

This will be the first thermal generating facility for the PUD within its service area, and it is considered a model of sustainability, reducing pollutants while supporting a healthier environment and producing clean power.

PUD staff also participated in regional discussions of climate change through the newly formed Snohomish County Climate Action Advisory

Group. In its first year in existence, the Snohomish County Climate Action Advisory Group focused on advising the County on its Sustainable Operations Action Plan, including County greenhouse gas accounting and mitigation. The group also worked to provide advice on developing a countywide climate action plan.

PUD staff have been key in helping to explain how the utility's largely renewable energy mix impacts greenhouse gas emissions in the service territory.



*The PUD stewards precious natural resources including the woods and waters of the Henry M. Jackson Hydroelectric Project. In December 2020, the spillway was in need of minor repairs. Rather than setting up scaffolding, workers used a rappelling system. This saved the utility about \$200,000 in repair costs and up to a week in labor!*



**T**he PUD's water utility continues to provide safe and reliable drinking water to more than 22,000 homes and businesses in the Lake Stevens, Granite Falls and surrounding areas.

In 2020, the water utility's capital program was challenged by the COVID-19 pandemic and resulting permitting and material delays. A number of capital projects involving the PUD's Warm Beach Water System and Lake Stevens Treatment Plant were delayed until 2021.

Despite obstacles put in place by the pandemic, water utility employees accomplished a lot in 2020. The PUD installed 579 new services, up from 470 the year before, and performed all scheduled preventative maintenance of pump stations, wells, treatment plants and reservoirs.

The water utility responded to a well pump failure on its Warm Beach Well No. 4 in August. The PUD replaced the well pump and motor in time to avoid a major dis-



ruption to the system's customers and a public health emergency.

Continued maintenance and diligent water sampling helped the water utility meet all state and federal water quality requirements for its water systems and provide safe drinking water for all of its customers in 2020.



**D**espite the hurdles of a global pandemic and resulting safety protocols, the PUD found creative and engaging ways to continue being a strong community partner in 2020.

With most customers isolating at home, PUD employees connected with customers in new ways. More than 100 PUD employees volunteered to sew masks for employees and community members, distributing them at an event at the PUD.

The PUD held a Drive-Thru Holiday Lighting Exchange in November. Customers were invited to drive up and exchange their old, incandescent



*Two dumpsters brimmed with old, inefficient holiday lights after more than 1,000 customers visited our Drive-Thru Holiday Lighting Exchange, November 20, 2020.*

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holiday lights or donate five non-perishable food items for new LED holiday lights. The event gave away more than 7,500 ENERGY STAR certified holiday lights and collected nearly 6,000 pounds of food.

With most students not in the classroom for most of 2020, the PUD's Education team had to think outside the box to teach kids about hydropower, conservation and safety around electricity. The team developed at-home learning kits and Artbot kits that were given away to educators across the PUD's service area.

The PUD also worked with a local Eagle Scout to install a pair of Little Free Libraries at its Community Offices in Lynnwood and Monroe.

In January, the PUD announced the Community Resource Center of Stanwood-Camano and Everett-based HopeWorks were both recipients of four-year solar grants through its Community Solar array in Arlington, expanding the benefits of solar energy to the income-qualified customers they serve.

For the first time ever, the PUD engaged business and government leaders to help build its Integrated Resource Plan. The PUD hosted a panel with leaders from Boeing, the Navy, Economic Alliance of Snohomish County and more, and surveyed other customers as part of its visioning process.

PUD field workers helped rescue a lost dog. Scouting a pole replacement in a remote area, linemen found Abe, a 15-year-old Australian cattle dog, at the bottom of a hole. The linemen got Abe out of the hole and reunited him with his owner.

In 2020, the PUD developed a "Thank You" campaign to express appreciation to its customers for all the ways they partner with and support the PUD. The PUD produced a video and calendar of employees thanking customers as they went about their

jobs. The PUD also sent personalized notes, a copy of its Quarantine Cookbook, a thank-you note from CEO/GM John Haarlow, and more to customers who had been with the PUD for at least 60 years.



*One of the PUD's new Little Free Libraries stands proudly with its installers in Lynnwood, September 16, 2020.*



*Abe as he was found by a PUD crew on September 15, 2020. Poor fella had been missing for almost two weeks!*

# PUD Executive Leadership Team



**John Haarlow**  
CEO/GM



**Pam Baley**  
Customer &  
Energy Services



**Melissa Collins**  
Commission &  
Executive Services



**Julee Cunningham**  
Communications, Marketing &  
Business Readiness



**Dean Galvez**  
Chief Information Officer



**Kim Johnston**  
Government &  
External Affairs



**Scott Jones**  
Chief Financial Officer



**Allison Jubb**  
Human Resources



**Guy Payne**  
Distribution &  
Engineering Services



**Anne Spangler**  
General Counsel



**Brant Wood**  
Water Utility



**Jason Zyskowski**  
Generation, Power, Rates &  
Transmission Management

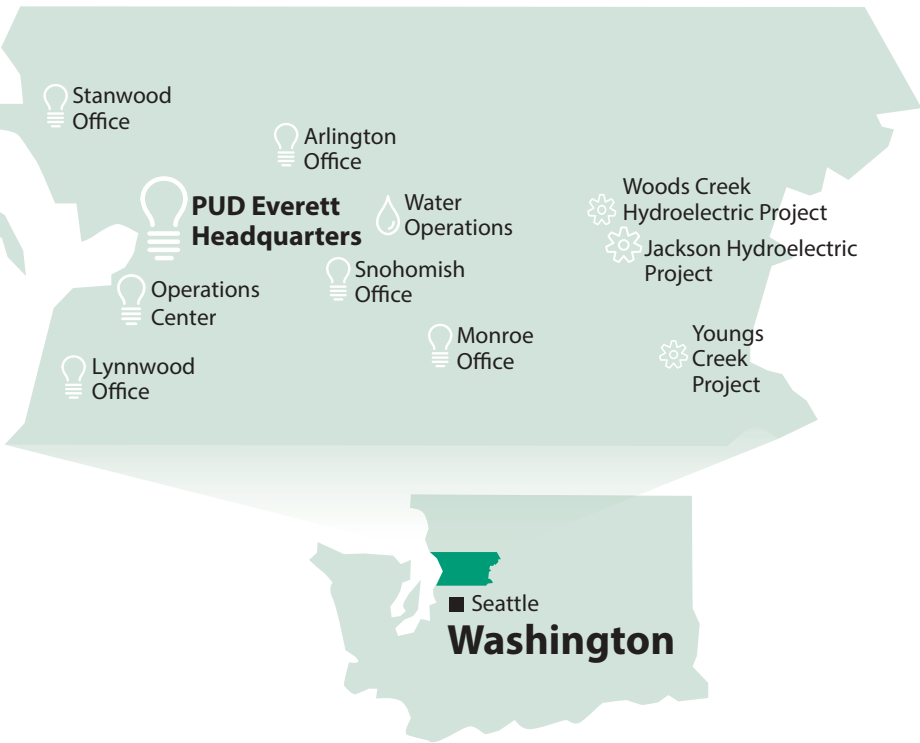




2020 brought many opportunities to shine—and none shined brighter than the Team PUD staffers who stepped up to sew thousands of masks for their co-workers and community! You are literally lifesavers—thank you all.

# A Legacy of Service

**S**nohomish County PUD was created by a majority vote of the people in 1936 to provide electric and water service to Snohomish County and Camano Island. It officially began operations as a water utility in 1947. In 1949, the PUD purchased the electric distribution system for Snohomish County and Camano Island from Puget Sound Power & Light and began serving its new customers. The PUD is the 12th largest public utility in the United States and the second largest in Washington, serving over 361,000 electrical customers. It also serves more than 22,000 water customers. The PUD is governed by three elected commissioners who represent separate districts within its service territory.





# Independent Auditors' Report



## Report of Independent Auditors

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Public Utility District No. 1 of Snohomish County, Washington (the District), which comprise the District's combined and individual statements of net position of the Electric, Generation, and Water Systems as of December 31, 2020, the related District's combined and the individual statements of revenues, expenses and changes in net position and cash flows for the Electric, Generation, and Water Systems for the year ended December 31, 2020, the District's combined statements as of and for the year ended December 31, 2019, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the District as of December 31, 2020 and 2019, and the individual financial positions of the Electric, Generation, and Water Systems as of December 31, 2020, and the changes in their financial positions and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Supplementary Information*

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2021, 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.



Everett, Washington  
April 2, 2021

# Management's Discussion and Analysis (Unaudited)

The following discussion provides an overview of Public Utility District No. 1 of Snohomish County (the PUD) financial activities for the years ended December 31, 2020 and 2019. This unaudited discussion is designed to be used in conjunction with the financial statements and notes, which follow this section.

## FINANCIAL HIGHLIGHTS

### Combined Operating Results

Snohomish County PUD's combined net operating income for 2020 was \$43 million, a slight increase from \$42 million in 2019. However, combined net income decreased from \$82 million in 2019 to \$65 million in 2020. This was a 20.9% decrease compared to a 2.5% increase in 2019. The net income decrease was primarily due to lower interest and investment income, lower grant revenue, lower capital contributions, and asset write-offs in 2020. The decreased capital contributions reflected slower real estate development activity due to the COVID-19 pandemic.

A slower economy in 2020 due to the COVID-19 pandemic did not slow down the PUD's growth in its customer base. The average number of Electric System customers increased 1.7% from 354,953 in 2019 to 361,076 in 2020, following a 1.3% increase in 2019. New electric service connections were 5,638 in 2020, the highest recorded at the PUD since 2017, compared to 4,339 in 2019, and 4,341 in 2018. The increase in 2020 was primarily due to an increase in new connections in multi-unit residential buildings, from 1,384 in 2019 to 2,576 in 2020. The average number of Water System customers increased 2.4% from 21,635 in 2019 to 22,161 in 2020, following a 4.0% increase in 2019. The transfer of the Warm Beach water system to the PUD in 2018 added approximately 600 customers to the water utility.

Despite the increases in customers and new connections, retail MWh sales decreased 1.2% from 6,531,223 MWh in 2019 to 6,452,632 MWh in 2020, compared to a 0.7% increase in 2019. The decrease was primarily caused by a 6.9% decrease in commercial and industrial MWh sales in 2020. Due to Washington State's "Stay Home, Stay Healthy" proclamation by the Governor, residential customers spent significantly more time at home, which drove a 3.4% increase in residential MWh sales.

Combined retail sales were \$621 million in 2020, lower than the \$627 million in 2019 and \$623 million in 2018. This was primarily the result of a decrease of \$16 million sales in commercial and industrial energy in 2020. This decrease was offset by an increase of \$12 million in residential energy sales. There were no Electric rate increases in the last three years. The Water System residential rate increased 1.8% effective January 2018, and there have been no rate increases since that time.

The PUD sells surplus power into the wholesale power markets to balance resources with customer loads. Combined wholesale sales revenue was \$39 million in 2020 compared to \$30 million in 2019 and \$35 million in 2018. The volume of excess power available to be sold in the wholesale market increased 47.0% in 2020. The Electric system sold \$13 million of excess transmission capacity in 2020 and \$11 million in 2019. Combined other operating revenue was \$33 million in 2020, \$4 million higher than the \$29 million in 2019. This was primarily due to energy efficiency reimbursements from Bonneville Power Administration (BPA).

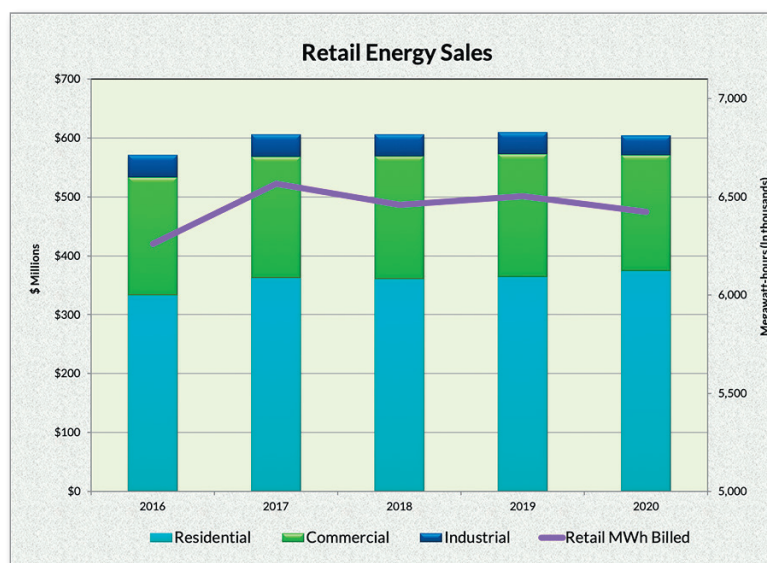


Figure 1



Combined operating expenses were \$650 million in 2020, \$7 million higher than the \$643 million spent in 2019, a 1.0% increase following a 2.4% increase in 2019. The primary driver of the operating expenses increase in 2020 was a \$29 million increase in operation and maintenance costs. This was partially offset by a \$24 million decrease in purchased power in 2020. Operations expenses increased \$25 million from \$197 million in 2019 to \$222 million in 2020. The higher 2020 operation and maintenance cost was primarily due to the increase in the write off of bad debt, additional costs of personal protection equipment, and the costs associated with the COVID-19 Community Support program. Combined maintenance costs were \$27 million in 2019, compared to \$30 million in 2020. In January and February 2020, there were several powerful storms. The storms caused trees and branches to fall, resulting in outages throughout Snohomish County and Camano Island. PUD crews spent days repairing transmission and distribution lines throughout the county to restore power. The PUD recorded \$2 million in maintenance costs as a result of these storms.

During 2020, the PUD's income from investing activities decreased to \$8 million as compared to \$12 million in 2019, consistent with the financial market indices. This was a 36.0% decrease compared to a 23.0% increase in 2019. The cash reserve portfolio is invested in securities and deposits authorized by Washington state statute. The portfolio is managed to reflect the PUD's current risk profile and other cash reserve policies and regulatory requirements.

Capital contributions decreased \$7 million in 2020 from \$42 million in 2019 to \$35 million, reflecting a downturn in the economy and slower real estate development activities. This was a 17.0% decrease in 2020 compared to a 40.0% increase in 2019.

## Bond Rating

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

The bond upgrade by Moody's, together with the PUD's already strong AA- ratings with Standard & Poor's and Fitch ratings, provided the PUD lower interest rates when the Electric and Generation Systems revenue bonds were refunded in 2020.

## ELECTRIC SYSTEM

### Electric System Rates

#### General Rates

The last electric general rate increase of 2.9% was approved by the PUD Board of Commissioners effective April 1, 2017. There were no planned rate increases in the 2020 Electric System operating budget. Because of strong financial results and reserve levels, the Board of Commissioners decided to forgo a rate increase in 2019.

#### Bonneville Power Administration (BPA) Rates

BPA markets wholesale electricity generated from the federally owned hydroelectric projects in the Columbia River basin and one non-federal nuclear power plant. BPA provides approximately 82% of the energy resources used by the PUD to serve its customers. Power purchases from BPA were \$230 million and \$239 million in 2020 and 2019, respectively. As a response to provide relief due to COVID-19, BPA suspended its financial reserves surcharge through September 2021. This will provide a saving of \$675,000 to the PUD.

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

## Capital Investments – Customer Growth

The PUD makes significant investments in capital programs each year to maintain, expand, and enhance its electric distribution system. The number of customers continues to grow in the PUD's service area. The need for electric distribution infrastructure and facilities to serve customers and assure reliability is expected to continue. Electric System capital expenditures were \$130 million in 2020 and \$113 million in 2019.

Key projects in 2020 included the construction of the new Swamp Creek substation in Lynnwood. This project improves transmission reliability and delivery capability to south Snohomish County. Construction on a new substation called Twin City is underway, which will serve new or growing customer loads in the Stanwood area of north Snohomish County. Other significant work included transformer replacements completed at Woods Creek substation, the replacement of aging equipment at three additional substations, and system reliability upgrades at seven other substations. Transmission projects included pole relocations for several municipalities. The PUD continued its ongoing replacement of aging poles. In 2020, approximately 358 distribution poles, 24 transmission poles, and 16 miles of underground distribution cables were replaced.

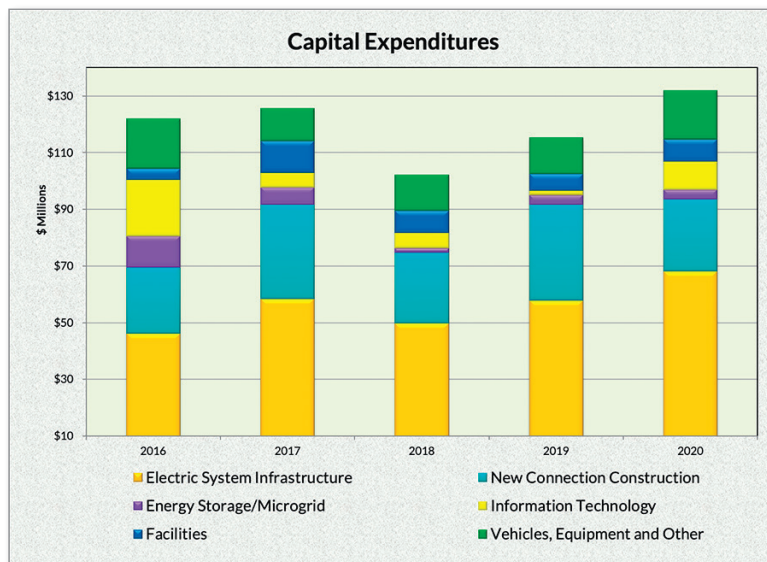


Figure 2

## Capital Funding and Lower Debt Levels

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

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

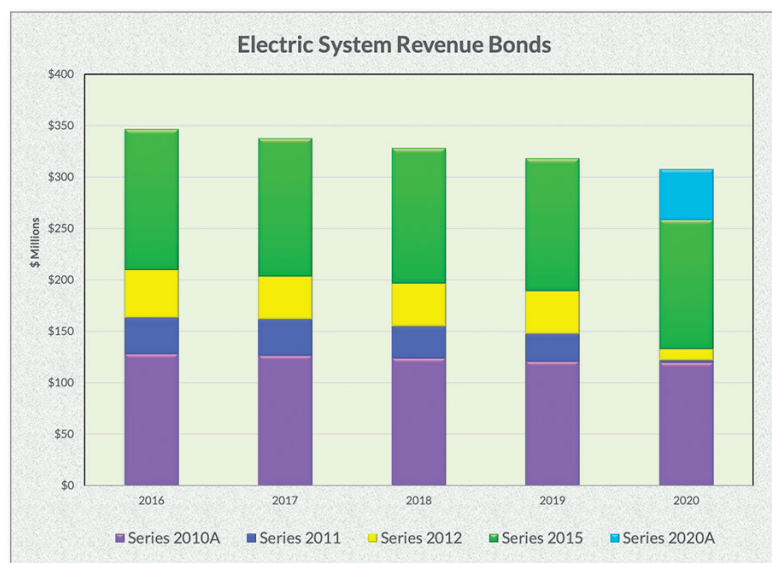


Figure 3

The PUD issued \$49.1 million of Series 2020A Electric System Revenue Refunding Bonds to partially advance refinance the Series 2011 and 2012 Electric System Revenue Bonds at lower long-term interest rates. This transaction resulted in a \$5.5 million net present value savings, and it will lower annual debt service costs by an average of \$1.2 million per year from 2021 to 2028.

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

the PUD to reduce Electric System debt levels. Long-term debt for the Electric System, including current maturities, totaled \$308 million as of December 31, 2020, compared to \$318 million in 2019 and \$328 million in 2018.

## Modular Energy Storage Architecture 2 Project Disposition

The PUD has two different Modular Energy Storage Architecture (MESA) battery energy storage systems which were classified as experimental projects. MESA 1 utilizes a lithium-ion battery technology, while MESA 2 uses a vanadium electrolyte technology. In 2014, the PUD received a grant from the Clean Energy Fund (CEF) through the Washington State Department of Commerce to develop the use of the flow battery system. At that time, the flow battery system was considered an emerging technology and not widely available. The MESA 2 project at the Everett substation was installed in 2016, and commissioning and testing began in 2017. Several leak incidents were noted and reported. In 2018, a spill occurred that had greater impact and required significant effort to mitigate, resulting in a decision to discontinue the MESA 2 operation. It has been determined that the MESA 2 system design is not viable for long-term reliability.

Due to the inherent risk of potential vanadium electrolyte spills and lack of system reliability, the MESA 2 equipment was decommissioned, and as a result, the Electric System recorded an \$8.5 million asset write-off charged to other income and expense in 2020. Since this project was deemed to be emerging technology the PUD is not required to reimburse the Washington State Department of Commerce for the grant funds received.

## GENERATION SYSTEM

### Lower Generation System Debt Levels

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

The PUD issued \$19.7 million of Series 2020A Generation System Revenue Refunding Bonds to refinance the Series 2010A Generation System Revenue Bonds at lower long-term interest rates. This transaction resulted in a \$2.5 million net present value savings, and it will lower annual debt service costs by an average of \$747,000 per year from 2021 to 2024.

Debt levels in the Generation System have been declining in recent years. Long-term debt for the Generation System, including current maturities, totaled \$73 million as of December 31, 2020, compared to \$81 million in 2019.

### Generation System Declining Wholesale Sales Revenue

The Generation System wholesale sales revenue decreased \$13.4 million from \$36.5 million in 2019 to \$23.1 million in 2020. The Jackson Hydro project paid off two intercompany loans in November 2019; which resulted in a \$12.7 million reduction in 2020. The Generation system paid \$15.0 million less in principal payments on bonds in 2020 as compared to 2019. The Generation system received \$13.7 million less in intercompany loan repayments in 2020 as compared to 2019.

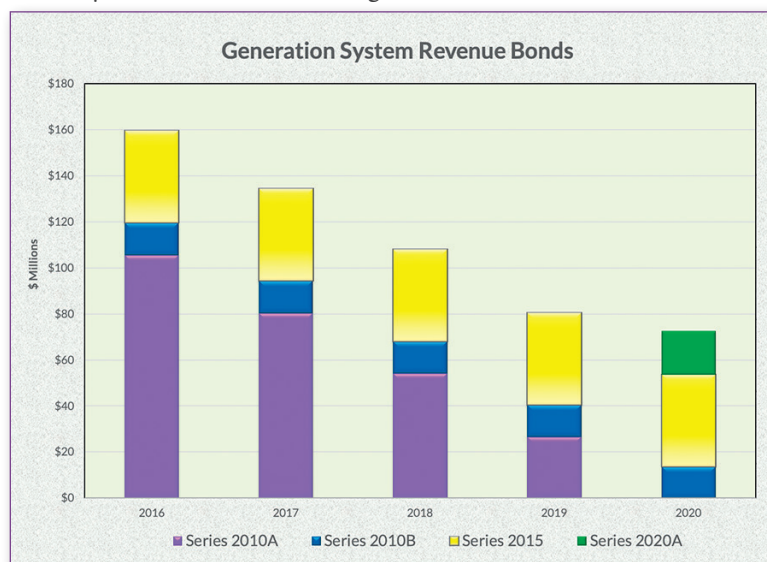


Figure 4



## WATER SYSTEM

### Water System Operating Results

Retail sales revenue for the Water System increased from \$12.7 million in 2019 to \$13.1 million in 2020 following a slight increase of \$0.1 million in 2019. The revenue increase in both 2019 and 2020 was due to an increased customer base, while the increase of \$0.4 million in 2018 was the result of an overall retail rate increase of 2.0% effective January 2018.

Operating expenses increased from \$11.6 million in 2019 to \$12.6 million in 2020, following an increase of \$0.5 million in 2019. The 2020 increase was primarily due to higher purchased water of \$0.3 million, and higher operations and maintenance costs of \$0.5 million.

Water System capital contributions were \$6.4 million in 2020, \$2.0 million lower than the \$8.4 million in 2019 reflecting slower developer activity in the central Snohomish County area the Water System serves, due to the COVID-19 pandemic.

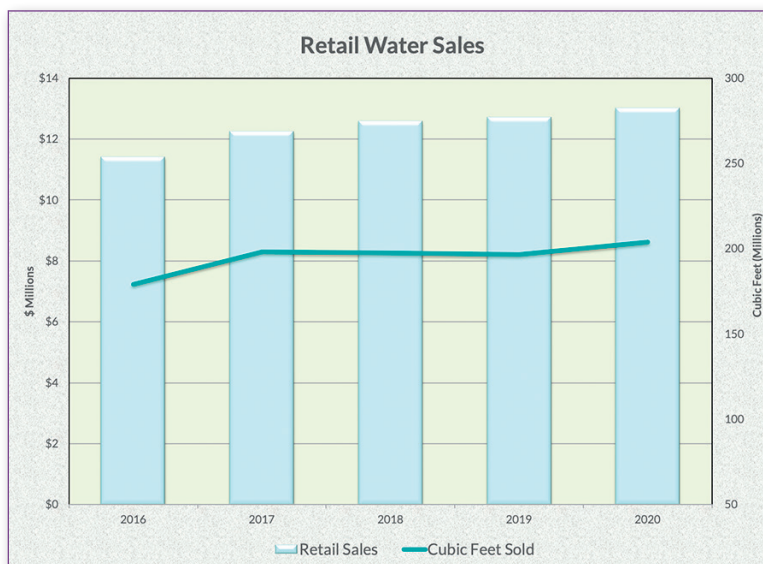


Figure 5

### Capital Funding and Lower Debt Levels

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

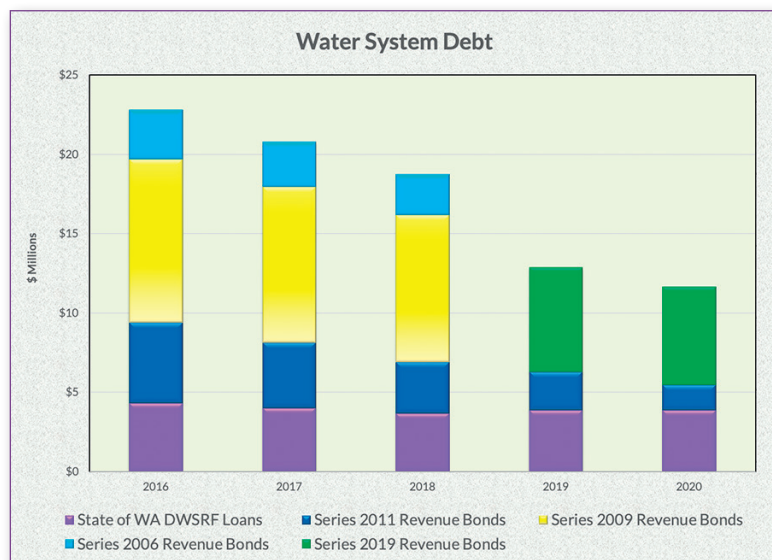


Figure 6

Growth in capital infrastructure provides additional debt capacity and flexibility for future financing activity. Strong operating results over the past several years have provided adequate cash for the funding of capital projects in the short-term. No new money debt issuance, along with the continued payment of outstanding debt have enabled the PUD to reduce Water System debt levels. Long-term debt for the Water System, including current maturities, totaled \$11.6 million as of December 31, 2020, compared to \$12.9 million in 2019.

### Water System Rate Change

In December 2017, the Board of Commissioners approved revisions to the Water System's service rate schedule including a January 2018 overall retail rate increase of 2.0%. Several factors led to

the rate increase, including a 3.5% increase in wholesale water purchase prices, increased operations and maintenance costs, and other necessary system infrastructure improvements to replace the aging water mains. There were no retail water rate increases in the last two years.

## Warm Beach Water Association Transfer

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

Improvements to the Association's system will be funded by a combination of \$6.3 million of federal and state grants and loans through the Drinking Water State Revolving Fund, \$0.8 million contributed by the Association, and approximately \$1.2 million from the PUD's Water System operating reserve. Customers of the PUD's Warm Beach water system pay a capital improvement surcharge to reimburse the operating reserve. The PUD initiated a drawdown of \$0.3 million and \$0.5 million from the Drinking Water State Revolving Fund in 2020 and 2019, respectively. Due to the COVID-19 pandemic, many Warm Beach improvement projects were placed on hold in 2020. An estimated \$4.6 million for improvement projects will be rolled into future years. These projects are necessary to increase the reliability of the transferred water system.

# OVERVIEW OF THE FINANCIAL STATEMENTS

## Basic Financial Statements

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

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

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

## Notes to the Financial Statements

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

## Financial Analysis

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

### Condensed Combined Financial Information (In millions)

	2020	2019	2018
Current Assets, Investments, and Special Funds	\$ 585	\$ 589	\$ 621
Net Utility Plant	1,638	1,608	1,552
Other Assets	20	19	19
<i>Total Assets</i>	<u>2,243</u>	<u>2,216</u>	<u>2,192</u>
Deferred Outflows of Resources	25	20	22
Current Liabilities	119	117	142
Long-Term Debt	400	430	453
Other Liabilities	127	124	142
<i>Total Liabilities</i>	<u>646</u>	<u>671</u>	<u>737</u>
Deferred Inflows of Resources	30	38	31
Net Investment in Capital Assets	1,226	1,168	1,069
Restricted	174	173	152
Unrestricted	192	186	224
<b>Net Position</b>	<u><b>\$ 1,592</b></u>	<u><b>\$ 1,527</b></u>	<u><b>\$ 1,445</b></u>
Operating Revenues	\$ 693	\$ 685	\$ 695
Operating Expenses	650	643	628
<i>Net Operating Income</i>	<u>43</u>	<u>42</u>	<u>67</u>
Interest Charges	(19)	(23)	(22)
Other Income and Expense	6	21	5
<i>Net Income (Loss) before Capital Contributions</i>	<u>30</u>	<u>40</u>	<u>50</u>
Capital Contributions	35	42	30
<i>Net Income</i>	<u>65</u>	<u>82</u>	<u>80</u>
Net Position – beginning of year	1,527	1,445	1,391
Adjustment for OPEB expense	–	–	(26)
<b>Net Position</b>	<u><b>\$ 1,592</b></u>	<u><b>\$ 1,527</b></u>	<u><b>\$ 1,445</b></u>



## Assets

Current assets, investments, and special funds decreased \$4 million in 2020 reflecting a planned utilization of reserve funds.

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

The PUD had \$1.6 billion invested in a broad range of net utility capital assets as of December 31, 2020, 2019, and 2018. Utility capital assets include five operating hydroelectric power generation plants, electric transmission and distribution lines and substations, water transmission and distribution pipes, storage and pump station facilities, buildings, and equipment. Utility plant additions were \$137 million in 2020 and \$123 million in 2019, reflecting investments in the distribution and transmission systems, including construction associated with growth and general facilities of the PUD. The increase in utility plant was offset by \$92 million and \$11 million in routine retirements in 2020 and 2019, respectively. Accumulated depreciation increased \$16 and \$56 million related to routine plant asset activity in 2020 and 2019, respectively.

Other assets increased \$1 million in both 2020 and 2019 reflecting a grant receivable from the Federal Emergency Management Administration (FEMA) related to restoration work associated with declared major storm events in January 2020 and December 2018.

## Deferred Outflows of Resources

Deferred outflows of resources increased \$5 million in 2020 and decreased \$2 million in 2019. Changes to the Net Pension Liability increased deferred outflows of resources by \$6 million in 2020 and decreased deferred outflows of resources by \$3 million in 2019.

## Liabilities

Current liabilities increased \$2 million in 2020 due to increases in accrued employee benefits and an increase in the current portion of long-term debt. Current liabilities decreased \$25 million in 2019 due to a decrease in the current portion of the PUD's long-term debt.

Long-term debt decreased \$30 million in 2020 and \$23 million in 2019 as a result of scheduled principal repayments and refunding of Electric and Generation system bonds in 2020 and Water system bonds in 2019.

Other liabilities increased \$3 million in 2020 and decreased \$18 million in 2019 primarily due to actuarial valuation changes in the post retirement liabilities.

## Deferred Inflows of Resources

Deferred inflows decreased \$8 million in 2020 and increased \$7 million in 2019 as the result of an increase in the net pension plan deferrals.

## Net Position

Net investment in capital assets increased \$58 and \$99 million in 2020 and 2019, respectively, reflecting the growth in net utility plant. The PUD added 5,638 and 4,339 Electric System customer connections in 2020 and 2019, respectively. The Water System added 579 and 470 customer connections in 2020 and 2019, respectively.

Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements, and resources restricted by the Board of Commissioners' resolution. Restricted net position increased \$1 million in 2020 and \$21 million in 2019.

Unrestricted net position is available to finance day-to-day operations without constraints established by covenants, legal requirements, or board resolutions. Unrestricted net position increased \$6 million in 2020 and decreased \$38 million in 2019 due to lower cash reserves and recognition of postemployment liability.

## Operating Revenues

Operating revenues increased \$8 million, from \$685 million in 2019 to \$693 million in 2020. Retail revenues decreased \$6 million while other operating revenues increased \$4 million due to a higher level of BPA energy conservation program reimbursements. Wholesale revenues increased \$10 million due to an overall increase in power available for sale in the wholesale market.

Operating revenues decreased \$10 million in 2019, from \$695 million in 2018 to \$685 million in 2019. Retail revenues increased \$4 million in 2019, while other operating revenue decreased \$8 million due to a lower level of BPA energy conservation program reimbursements. Wholesale revenues decreased \$6 million due to an overall decrease in power available for sale in the wholesale market.

## Operating Expenses

Operating expenses increased \$7 million in 2020, from \$643 million in 2019 to \$650 million in 2020. The PUD's response to the COVID-19 pandemic and the impact of two significant weather events in the first quarter of 2020 were the primary contributors to this increase.

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

## Interest Charges

Interest charges decreased \$4 million from 2019 to 2020 as a result of declining debt levels.

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

## Other Income and Expense

Other income and expense decreased \$15 million in 2020 due to the recognition of \$8 million remaining depreciable value of the decommissioned MESA 2 battery energy storage system assets, a \$4 million decrease in interest income reflecting unfavorable market conditions, and a \$3 million decrease in grant income.

Other income and expense increased \$16 million in 2019 due to a \$5 million increase in grant income and a \$3 million increase in interest income.

## Capital Contributions

Capital contributions decreased \$7 million in 2020 and increased \$12 million in 2019. Capital contributions are collected from property developers when they request to connect to the PUD's electric or water distribution systems or request engineering or construction services. The decrease in 2020 reflects decreased property development activity due to the COVID-19 pandemic while the increase in 2019 reflected a trend toward increased property development in the PUD's service area at that time.

### Adjustment for OPEB Expense

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

### Requests for Information

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



## Combined Statements of Net Position

December 31, 2020 and 2019

(In thousands)

	2020				2019
	Electric System	Generation System	Water System	Combined	Combined
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and temporary investments:					
Cash and cash equivalents	\$ 62,332	\$ 7,312	\$ 1,694	\$ 71,338	\$ 45,614
Temporary investments	68,635	3,269	4,025	75,929	92,816
<b>Total Cash and Temporary Investments</b>	<b>130,967</b>	<b>10,581</b>	<b>5,719</b>	<b>147,267</b>	<b>138,430</b>
Accounts and other receivables, net	93,187	275	1,786	95,248	88,060
Intersystem loans receivable	3,871	–	–	–	–
Materials and supplies	28,398	–	314	28,712	28,341
Prepayments and other	9,480	281	127	9,888	9,966
<b>Total Current Assets</b>	<b>265,903</b>	<b>11,137</b>	<b>7,946</b>	<b>281,115</b>	<b>264,797</b>
<b>Long-Term Investments &amp; Special Funds:</b>					
Long-term investments	88,148	2,790	2,276	93,214	115,644
Special funds – bond funds and other	179,976	13,773	16,897	210,646	208,320
<b>Total Long-Term Investments &amp; Special Funds</b>	<b>268,124</b>	<b>16,563</b>	<b>19,173</b>	<b>303,860</b>	<b>323,964</b>
<b>Utility Plant:</b>					
Plant in service	1,992,876	348,865	166,618	2,508,359	2,429,827
Construction work in progress	103,177	3,300	1,230	107,707	140,655
Total utility plant	2,096,053	352,165	167,848	2,616,066	2,570,482
Accumulated depreciation	(784,514)	(151,742)	(42,182)	(978,438)	(962,142)
<b>Net Utility Plant</b>	<b>1,311,539</b>	<b>200,423</b>	<b>125,666</b>	<b>1,637,628</b>	<b>1,608,340</b>
<b>Other Assets:</b>					
Conservation loans and other receivables, net	4,749	38	378	5,165	3,115
Intersystem loans and receivables	34,041	–	–	–	–
FERC licenses	–	15,051	–	15,051	15,588
Other assets	442	51	–	493	705
<b>Total Other Assets</b>	<b>39,232</b>	<b>15,140</b>	<b>378</b>	<b>20,709</b>	<b>19,408</b>
<b>Total Assets</b>	<b>1,884,798</b>	<b>243,263</b>	<b>153,163</b>	<b>2,243,312</b>	<b>2,216,509</b>
<b>Deferred Outflows of Resources</b>					
Unamortized loss on refunding debt	1,389	3,888	108	5,385	6,348
Net pension and OPEB deferrals	18,485	489	479	19,453	13,747
<b>Total Deferred Outflows of Resources</b>	<b>19,874</b>	<b>4,377</b>	<b>587</b>	<b>24,838</b>	<b>20,095</b>
<b>Total Assets and Deferred Outflows</b>	<b>\$1,904,672</b>	<b>\$ 247,640</b>	<b>\$ 153,750</b>	<b>\$2,268,150</b>	<b>\$2,236,604</b>

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

## Combined Statements of Net Position

December 31, 2020 and 2019

(In thousands)

	2020				2019
	Electric System	Generation System	Water System	Combined	Combined
<b>Liabilities</b>					
<b>Current Liabilities:</b>					
Accounts payable	\$ 48,183	\$ 363	\$ 384	\$ 48,930	\$ 50,505
Accrued taxes	18,009	121	118	18,248	18,022
Accrued interest	1,252	309	44	1,605	1,894
Other accrued liabilities	28,500	—	4	28,504	24,874
Customer deposits	4,147	—	18	4,165	4,736
Current maturities of long-term debt	11,085	4,890	1,576	17,551	17,182
Intersystem loans payable	—	3,871	—	—	—
<b>Total Current Liabilities</b>	<b>111,176</b>	<b>9,554</b>	<b>2,144</b>	<b>119,003</b>	<b>117,213</b>
<b>Long-Term Debt:</b>					
Revenue bonds	313,513	74,400	8,058	395,971	426,288
Other notes payable	—	—	3,495	3,495	3,540
<b>Total Long-Term Debt</b>	<b>313,513</b>	<b>74,400</b>	<b>11,553</b>	<b>399,466</b>	<b>429,828</b>
<b>Other Liabilities:</b>					
Intersystem loans and payables	—	34,041	—	—	—
FERC license obligations	—	15,051	—	15,051	15,588
Net pension liability	41,583	1,092	1,092	43,767	44,804
Other liabilities	65,470	1,344	1,531	68,345	63,565
<b>Total Other Liabilities</b>	<b>107,053</b>	<b>51,528</b>	<b>2,623</b>	<b>127,163</b>	<b>123,957</b>
<b>Total Liabilities</b>	<b>531,742</b>	<b>135,482</b>	<b>16,320</b>	<b>645,632</b>	<b>670,998</b>
<b>Deferred Inflows of Resources</b>					
Unearned FERC license contributions	—	5,000	—	5,000	5,500
Net pension deferrals	13,624	302	376	14,302	26,583
Other deferred inflows	5,036	5,612	108	10,756	6,085
<b>Total Deferred Inflows of Resources</b>	<b>18,660</b>	<b>10,914</b>	<b>484</b>	<b>30,058</b>	<b>38,168</b>
<b>Net Position</b>					
Net investment in capital assets	988,330	125,020	112,646	1,225,996	1,167,677
Restricted:					
Reserve funds	569	7,075	1,054	8,698	9,136
Rate stabilization	117,864	—	1,500	119,364	117,978
Debt service and other	25,576	6,389	14,282	46,247	46,590
Unrestricted	221,931	(37,240)	7,464	192,155	186,057
<b>Total Net Position</b>	<b>1,354,270</b>	<b>101,244</b>	<b>136,946</b>	<b>1,592,460</b>	<b>1,527,438</b>
<b>Total Liabilities, Deferred Inflows and Net Position</b>	<b>\$ 1,904,672</b>	<b>\$ 247,640</b>	<b>\$ 153,750</b>	<b>\$ 2,268,150</b>	<b>\$ 2,236,604</b>

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

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

Years ended December 31, 2020 and 2019

(In thousands)

	2020				2019
	Electric System	Generation System	Water System	Combined	Combined
<b>Operating Revenues:</b>					
Retail sales	\$ 607,680	\$ –	\$ 13,068	\$ 620,748	\$ 626,543
Wholesale sales	38,783	23,056	687	39,470	29,951
Other	32,088	270	368	32,726	29,168
<b>Total Operating Revenues</b>	<b>678,551</b>	<b>23,326</b>	<b>14,123</b>	<b>692,944</b>	<b>685,662</b>
<b>Operating Expenses:</b>					
Purchased power	312,131	–	–	289,075	313,459
Purchased water	–	–	2,925	2,925	2,596
Operations	213,742	4,634	3,840	222,216	196,883
Maintenance	25,493	2,815	1,924	30,232	26,708
Depreciation	57,202	5,799	3,191	66,192	64,238
Taxes	38,525	124	754	39,403	39,510
<b>Total Operating Expenses</b>	<b>647,093</b>	<b>13,372</b>	<b>12,634</b>	<b>650,043</b>	<b>643,394</b>
<b>Net Operating Income</b>	<b>31,458</b>	<b>9,954</b>	<b>1,489</b>	<b>42,901</b>	<b>42,268</b>
<b>Interest Charges:</b>					
Interest	16,044	5,565	476	20,505	23,033
Amortization of debt-related costs	(643)	(524)	(164)	(1,331)	382
Allowance for funds used during construction	–	–	–	–	4
<b>Total Interest Charges</b>	<b>15,401</b>	<b>5,041</b>	<b>312</b>	<b>19,174</b>	<b>23,419</b>
<b>Other Income and Expense:</b>					
Interest income	11,090	388	363	10,261	14,290
Other income and expense, net	(4,262)	411	(22)	(3,873)	6,812
<b>Total Other Income and Expense</b>	<b>6,828</b>	<b>799</b>	<b>341</b>	<b>6,388</b>	<b>21,102</b>
<b>Net Income Before Capital Contributions</b>	<b>22,885</b>	<b>5,712</b>	<b>1,518</b>	<b>30,115</b>	<b>39,951</b>
<b>Capital Contributions</b>	<b>28,445</b>	<b>108</b>	<b>6,354</b>	<b>34,907</b>	<b>42,226</b>
<b>Net Income</b>	<b>51,330</b>	<b>5,820</b>	<b>7,872</b>	<b>65,022</b>	<b>82,177</b>
Net Position, Beginning of year	1,302,940	95,424	129,074	1,527,438	1,445,261
<b>Net Position, End of year</b>	<b>\$1,354,270</b>	<b>\$ 101,244</b>	<b>\$ 136,946</b>	<b>\$1,592,460</b>	<b>\$ 1,527,438</b>

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



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## Combined Statements of Cash Flows

Years ended December 31, 2020 and 2019

(In thousands)

	2020				2019
	Electric System	Generation System	Water System	Combined	Combined
<b>Cash Flows From Operating Activities:</b>					
Cash received from customers	\$ 634,469	\$ 23,205	\$ 13,487	\$ 648,105	\$ 661,962
Cash payments to suppliers	(475,979)	(3,272)	(6,149)	(462,344)	(464,153)
Cash payments to employees	(93,251)	(4,899)	(3,756)	(101,906)	(89,019)
Cash payments for taxes	(38,219)	(74)	(730)	(39,023)	(41,903)
Other cash received (paid)	36,220	(1,571)	145	34,794	20,488
<b>Net Cash Provided by Operating Activities</b>	<b>63,240</b>	<b>13,389</b>	<b>2,997</b>	<b>79,626</b>	<b>87,375</b>
<b>Cash Flows From Capital &amp; Related Financing Activities:</b>					
Capital construction	(84,230)	(2,087)	(1,640)	(87,957)	(107,030)
Proceeds from debt	49,085	22,160	313	71,558	8,579
Repayment of debt	(59,450)	(27,685)	(1,539)	(88,674)	(50,501)
Advance refunding costs	(3,984)	—	—	(3,984)	—
Debt issuance costs	(436)	(243)	(26)	(705)	(97)
Interest paid on debt	(16,316)	(5,594)	(466)	(20,796)	(23,179)
Capital contributions	22,188	108	4,273	26,569	28,642
Capital grants received	—	—	—	—	1,268
Intercompany loans	3,530	(3,530)	—	—	—
<b>Net Cash (Used for) Capital &amp; Related Financing Activities</b>	<b>(89,613)</b>	<b>(16,871)</b>	<b>915</b>	<b>(103,989)</b>	<b>(142,318)</b>
<b>Cash Flows From Investing Activities:</b>					
Sale of special funds and investment securities	176,514	16,577	18,884	211,975	335,116
Purchase of special funds and investment securities	(135,454)	(13,691)	(23,303)	(172,448)	(343,596)
Interest on investment securities	11,168	604	368	10,560	14,088
<b>Net Cash Provided by (Used for) Investing Activities</b>	<b>52,228</b>	<b>3,490</b>	<b>(4,051)</b>	<b>50,087</b>	<b>5,608</b>
<b>Cash Flows From Non-Capital Financing Activities:</b>					
Non-capital grants received	—	—	—	—	1,055
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,055</b>
<b>Net Increase (Decrease) in Cash &amp; Cash Equivalents</b>	<b>25,855</b>	<b>8</b>	<b>(139)</b>	<b>25,724</b>	<b>(48,280)</b>
Beginning of Year	36,477	7,304	1,833	45,614	93,894
<b>Cash &amp; Cash Equivalents - End of Year</b>	<b>\$ 62,332</b>	<b>\$ 7,312</b>	<b>\$ 1,694</b>	<b>\$ 71,338</b>	<b>\$ 45,614</b>

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

## Combined Statements of Cash Flows (continued)

Years ended December 31, 2020 and 2019

(In thousands)

	2020				2019
	Electric System	Generation System	Water System	Combined	Combined
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:					
Net Operating Income	\$ 31,458	\$ 9,954	\$ 1,489	\$ 42,901	\$ 42,268
Adjustments to net operating income:					
Depreciation	57,202	5,799	3,191	66,192	64,238
Pension and OPEB Related	(16,207)	(441)	(446)	(17,094)	(14,443)
Other cash additions (deductions)	(9,036)	152	(22)	(8,906)	(888)
(Increase) decrease in receivables	(6,417)	(120)	(309)	(6,846)	2,589
(Increase) decrease in other assets	(511)	(138)	16	(633)	(5,037)
Increase (decrease) in payables	(703)	(68)	(804)	(1,575)	(4,047)
Increase (decrease) in other liabilities	7,454	(1,749)	(118)	5,587	2,695
<b>Total adjustments</b>	<b>31,782</b>	<b>3,435</b>	<b>1,508</b>	<b>36,725</b>	<b>45,107</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 63,240</b>	<b>\$ 13,389</b>	<b>\$ 2,997</b>	<b>\$ 79,626</b>	<b>\$ 87,375</b>
Non-cash Investing, Capital and Related Financing Activities:					
Non-cash contributions	\$ 5,442	\$ —	\$ 2,081	\$ 7,523	\$ 13,256
Allowance for funds used during construction	—	—	—	—	(4)
Changes in valuation of financial instruments	2,513	62	(14)	2,561	2,192
Amortization of debt related costs	643	524	164	1,331	(382)

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



# Notes to Combined Financial Statements

December 31, 2020 and 2019

## Note 1

### Summary of Significant Accounting Policies

#### GENERAL

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

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

The accompanying financial statements for 2020 include the individual and combined statements of net position for the Electric System, Generation System, and Water System, and the statements of revenues, expenses, and changes in net position, and cash flows for each system. System columns presented in the financial statements and notes may not add to the combined totals due to the elimination of intercompany transactions, which consist of intersystem loans and routine intercompany transactions.

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

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

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

#### Retail Sales

The PUD bills Electric and Water System customers for their consumption on a monthly basis. The accompanying financial statements include estimated unbilled revenues for electricity and water delivered to customers between the last billing date and the end of the year. Unbilled electric revenue was \$32.1 million and \$37.4 million as of December 31, 2020, and 2019, respectively. Unbilled water revenue was \$582 thousand and \$629 thousand as of December 31, 2020, and 2019, respectively. Power sales and purchase transactions are recognized over the duration of the contracts as a component of retail and wholesale revenue and purchased power operating expenses.

#### Capital Contributions

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

#### Cash Equivalents

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

### *Accounts Receivable and Allowance for Doubtful Accounts*

Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. A reserve is established for uncollectible accounts receivable based upon historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. The allowance for doubtful accounts was \$7.8 million and \$2.8 million as of December 31, 2020 and 2019, respectively. The increase in the allowance was the result of the PUD's response to the COVID-19 pandemic.

### *Material and Supplies*

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

### *Special Funds*

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

### *Utility Plant*

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

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

### *Unamortized Loss on Refunding Debt*

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

### *Net Position*

Net position consists of the following components:

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

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

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

### *Compensated Absences*

Employees accrue paid time off (PTO) or vacation in varying amounts according to their years of service. Accrued liability for PTO and vacation was \$16.3 million and \$12.3 million at December 31, 2020 and 2019, respectively. These liabilities are presented as part of Other Accrued Liabilities.

**Table 1**  
**Utility Plant**  
(In thousands)

	2018		2019		2020		
	Ending Balance	Additions	Retirements & Transfers	Ending Balance	Additions	Retirements & Transfers	Ending Balance
<b>Electric System</b>							
Transmission	\$ 161,860	\$ 2,066	\$ (511)	\$ 163,415	\$ 20,383	\$ (1,092)	\$ 182,706
Distribution	1,211,488	61,427	(7,930)	1,264,985	84,273	(31,861)	1,317,397
General Plant & Other	409,141	14,659	(2,383)	421,417	21,779	(25,229)	417,967
Land & Non-Depreciable Assets	70,410	1,189	—	71,599	3,467	(260)	74,806
Plant in Service	1,852,899	79,341	(10,824)	1,921,416	129,902	(58,442)	1,992,876
Construction Work in Progress	100,266	34,238	—	134,504	—	(31,327)	103,177
Utility Plant	1,953,165	113,579	(10,824)	2,055,920	129,902	(89,769)	2,096,053
Less Accumulated Depreciation	(729,248)	(51,006)	3,403	(776,851)	(21,617)	13,954	(784,514)
<b>Net Utility Plant</b>	<b>\$1,223,917</b>	<b>\$ 62,573</b>	<b>\$ (7,421)</b>	<b>\$1,279,069</b>	<b>\$ 108,285</b>	<b>\$ (75,815)</b>	<b>\$1,311,539</b>
<b>Generation System</b>							
Generation/Production	\$ 294,089	\$ 566	\$ (60)	\$ 294,595	\$ 550	\$ (120)	\$ 295,025
Transmission	2,781	58	(28)	2,811	—	—	2,811
Distribution	6,422	—	(6)	6,416	404	—	6,820
General Plant & Other	29,645	161	—	29,806	581	—	30,387
Land & Non-Depreciable Assets	13,827	(5)	—	13,822	—	—	13,822
Plant in Service	346,764	780	(94)	347,450	1,535	(120)	348,865
Construction Work in Progress	2,181	489	—	2,670	—	630	3,300
Utility Plant	348,945	1,269	(94)	350,120	1,535	510	352,165
Less Accumulated Depreciation	(140,289)	(5,696)	—	(145,985)	(5,843)	86	(151,742)
<b>Net Utility Plant</b>	<b>\$ 208,656</b>	<b>\$ (4,427)</b>	<b>\$ (94)</b>	<b>\$ 204,135</b>	<b>\$ (4,308)</b>	<b>\$ 596</b>	<b>\$ 200,423</b>
<b>Water System</b>							
Generation/Production	\$ 9,300	\$ 56	\$ —	\$ 9,356	\$ —	\$ —	\$ 9,356
Transmission & Distribution	126,927	6,780	(252)	133,455	5,929	(383)	139,001
General Plant & Other	13,918	236	(58)	14,096	111	—	14,207
Land & Non-Depreciable Assets	4,032	22	—	4,054	—	—	4,054
Plant in Service	154,177	7,094	(310)	160,961	6,040	(383)	166,618
Construction Work in Progress	1,989	1,492	—	3,481	—	(2,251)	1,230
Utility Plant	156,166	8,586	(310)	164,442	6,040	(2,634)	167,848
Less Accumulated Depreciation	(36,448)	(2,899)	41	(39,306)	(2,958)	82	(42,182)
<b>Net Utility Plant</b>	<b>\$ 119,718</b>	<b>\$ 5,687</b>	<b>\$ (269)</b>	<b>\$ 125,136</b>	<b>\$ 3,082</b>	<b>\$ (2,552)</b>	<b>\$ 125,666</b>



## Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The PUD has used estimates in determining reported amounts including unbilled revenue, allowance for doubtful accounts receivable, accrued liability for injuries and damages, depreciable lives of utility plant, pensions, and other contingencies. Actual results could differ from these estimates. During 2020, due to the COVID-19 pandemic, the PUD stopped meter reading in late March. Estimated bills were sent to customers. Meter reading was resumed on June 1.

## Accounting Changes and Reclassifications

Governmental Accounting Standards Board (GASB) Statement No. 90, Majority Equity Interests, defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. This statement has no impact on the financial results of the PUD.

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

In 2019, the PUD implemented GASB Statement No. 84, Fiduciary Activities. It required governmental entities to identify fiduciary activities for accounting and financial reporting purposes. Three defined contribution plans, 401(a), 401(k) and Retirement Health Savings (RHS) plans were reported as fiduciary activities. Two new financial reports – Combined Statements of Fiduciary Net Position, Pension Funds and Combined Statements of Changes in Fiduciary Net Position, Pension Funds – were included as part of the financial statements as of December 31, 2019.

In 2020, GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans (an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB statement No. 32). It established exemptions for defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and other employee benefit plans when evaluating if the plan meets the component unit criteria. The PUD adopted these provisions of GASB 97 for the year ended December 31, 2020. Based on the revised guidance, the three defined contribution benefit plans reported in the 2019 financial statements as fiduciary funds were determined to no longer meet the criteria for fiduciary activity reporting.

As a result of the early implementation of GASB Statement No. 97, the Combined Statements of Fiduciary Net Position, Pension Funds and Combined Statements of Changes in Fiduciary Net Position, Pension Funds have been eliminated from reporting in the financial statements as of December 31, 2020 and 2019. Disclosures for the above mentioned defined contribution benefit plans is disclosed in Note 7 following the requirements of GASB No. 68.

In addition, GASB No. 97 required governmental entities to classify its Section 457 plan as either a pension plan or an other employee benefit plan. A Section 457 plan that does not meet the definition of a pension plan is an other employee benefit for accounting and financial reporting purposes. The PUD early adopted this provision of GASB 97 for the year ended December 31, 2020. The Section 457 plan of the PUD meets the criteria of an Other Employee Benefit plan; however, as the plan is a defined contribution plan, it also meets the exception criteria from reporting it as a fiduciary activity under provisions of GASB 84, as amended. With the adoption of GASB No. 97, no fiduciary activity was reported for the Section 457 plan as of December 31, 2020.

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation.

## Note 2

### Special Funds and Cash and Temporary Investments

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

All PUD investments are in compliance with the State of Washington statutes and PUD bond resolutions. Substantially all PUD investments are recorded at fair value based on quoted market prices. The relative type of PUD's investments at December 31, 2020 and 2019 are summarized in Table 2.

**Table 2**  
**Special Funds and Cash and Temporary Investments**

	Electric System		Generation System		Water System	
	2020	2019	2020	2019	2020	2019
U.S. Treasury Securities	43%	51%	36%	44%	35%	49%
U.S. Agency Obligations						
Federal Home Loan Bank	14%	18%	6%	—	4%	7%
Federal Farm Credit Bank	10%	5%	2%	—	12%	5%
Federal National Mortgage Association	8%	6%	3%	3%	23%	8%
Federal Home Loan Mortgage Corporation	2%	4%	—	3%	—	10%
Tennessee Valley Authority	—	2%	—	—	—	—
Private Export Funding Corporation	1%	—	—	—	—	—
Cash and Interest-bearing Demand or Time Deposits	6%	4%	—	—	2%	2%
Washington State Local Government Investment Pool	16%	10%	53%	50%	24%	19%

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

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

The Washington State Local Government Investment Pool (LGIP) is an investment vehicle operated by the Washington State Treasurer, offering governmental agency investors the economies of scale available from a multi-billion-dollar pooled fund investment portfolio. As of December 31, 2020, LGIP investments include primarily U.S. Agency Securities, U.S. Treasury Securities, Repurchase Agreements, and Interest-Bearing Bank Deposits. Assets held in LGIP are invested in a manner consistent with the U.S. Securities and Exchange Commission's rule 2a-7 of the Investment Company Act of 1940. The PUD records these investments at amortized cost.

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

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

The PUD manages its exposure to decreases in the fair value of its investments arising from increasing interest rates by setting maturity limits for its investments. While some bond reserves are invested in U.S. agency obligations that approximate the term of the related bonds, all other funds are invested in instruments with maturities of less than five years, and most

are invested for terms of two years or less. The PUD's investment policy specifies that the investment portfolio be structured so maturing investments match projected cash flow needs in order to mitigate interest rate risk. Investment maturities for combined special funds and cash and temporary investments as of December 31, were as follows:

Term	2020		2019	
	Amount Invested (in thousands)	Percent of Invested Fund	Amount Invested (in thousands)	Percent of Invested Fund
Less than 30 days	\$ 85,015	19%	\$ 71,748	16%
30 to 90 days	34,116	8%	19,534	4%
90 days to 1 year	91,416	20%	106,788	23%
1 year to 5 years	219,816	48%	238,552	51%
Bond reserves invested to bond maturity	20,764	5%	25,772	6%
	<u>\$ 451,127</u>	<u>100%</u>	<u>\$ 462,394</u>	<u>100%</u>

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

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

	2020						2019	
	Electric Level 1	Electric Level 2	Generation Level 1	Generation Level 2	Water Level 1	Water Level 2	Combined Level 1	Combined Level 2
U.S. Treasury Notes	\$ 173,859	\$ –	\$ 9,922	\$ –	\$ 8,684	\$ –	\$231,307	\$ –
Tennessee Valley Authority	–	–	–	–	–	–	–	10,013
Federal Home Loan Mortgage Corporation	–	8,222	–	–	–	–	–	17,335
Federal Farm Credit Bank	–	39,860	–	500	–	3,030	–	21,646
Federal Home Loan Bank	–	55,250	–	1,530	–	1,016	–	75,473
Federal National Mortgage Association	–	33,817	–	806	–	5,658	–	27,658
Private Export Funding Corp.	–	2,486	–	–	–	–	–	–
Assets Valued at Fair Value	<u>\$ 173,859</u>	<u>\$ 139,635</u>	<u>\$ 9,922</u>	<u>\$ 2,836</u>	<u>\$ 8,684</u>	<u>\$ 9,704</u>	<u>\$231,307</u>	<u>\$ 152,125</u>

### Note 3

#### Long-Term Debt

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

**Table 3**  
**Debt Service (Principal & Interest)**

(In thousands)

	Electric System		Generation System		Water System	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 11,085	\$ 14,024	\$ 4,890	\$ 3,708	\$ 1,576	\$ 426
2022	11,510	13,540	5,120	3,463	1,656	369
2023	11,985	13,066	5,355	3,206	783	299
2024	12,815	12,870	5,610	2,937	808	271
2025	13,365	12,779	1,410	2,655	834	243
2026–2030	57,530	58,185	8,230	12,093	4,323	737
2031–2035	73,290	41,740	10,625	9,696	1,390	67
2036–2040	116,260	18,005	13,705	6,615	186	9
2041–2045	–	–	17,595	2,725	75	1
<b>Total</b>	<u><b>\$ 307,840</b></u>	<u><b>\$ 184,209</b></u>	<u><b>\$ 72,540</b></u>	<u><b>\$ 47,098</b></u>	<u><b>\$ 11,631</b></u>	<u><b>\$ 2,422</b></u>



The Electric, Generation and Water Systems' revenues, net of specified operating expenses, are pledged as security for the systems' revenue bonds until their respective bonds are defeased or repaid. Principal and interest paid for 2020 and 2019 were \$32.2 million and \$60.1 million, respectively. Total revenues available for debt service as defined for the same periods were \$133.3 million and \$141.8 million. At December 31, 2020, annual principal and interest payments are expected to require between 23% and 25% of revenues.

Tax-exempt revenue bonds make up the majority of the PUD's long-term debt and are subject to Internal Revenue Service Code (the Code) requirements for arbitrage rebate. Rebates are calculated based on earnings on gross proceeds of the bonds that are in excess of the amount prescribed by the Code. The estimated arbitrage liability as of December 31, 2019 was \$1.3 million. The actual arbitrage liability of \$1.5 million was fully accrued and paid in December of 2020.

### Electric System

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

	December 31,	
	2020	2019
	(In thousands)	
Series 2020A Revenue Refunding bonds, 0.333-1.467%, due 2021-2028	\$ 49,020	\$ –
Series 2015 Revenue bonds, 5.0%, due 2021-2040, earliest call 2025	126,215	129,150
Series 2012 Revenue Refunding bonds, 4.0%, due 2021-2022	11,005	41,495
Series 2011 Revenue Refunding bonds, 4.0-5.0%, due 2021	1,665	26,980
Series 2010A Revenue bonds, 4.6-5.6%, due 2021-2035, currently callable	119,935	120,580
<b>Total Principal Outstanding on Long-Term Debt</b>	<b>\$307,840</b>	<b>\$318,205</b>

In October 2020, the PUD issued \$49.1 million of Series 2020A Electric System Revenue Refunding bonds at par value with an average interest rate of 1.1%. These proceeds, along with \$5.3 million from the PUD's Reserves, were used to partially advance refund the Series 2011 and Series 2012 Electric System Revenue bonds which had a net carrying value of \$24.7 and \$28.1 million and an average interest rate of 3.4% and 2.7%, respectively, at the time of refunding. The costs of issuance of \$0.5 million were paid out of the bond proceeds, with the remaining proceeds used to purchase U.S. Treasury Securities – State and Local Government Series. These securities were deposited into an irrevocable trust with an escrow agent to provide for debt service payments on all callable maturities of the 2011 and 2012 series through their respective call dates of December 1, 2021 and December 1, 2022. As a result, the callable portion of the 2011 and 2012 Series are considered to be defeased and the liability for those bonds have been removed from the Statements of Net Position as of December 31, 2020.

The difference between the funds required to refund the outstanding debt, \$53.9 million, and the net carrying amount of the outstanding debt, \$52.8 million, is recognized as a deferred outflow of resources to be amortized over the remaining life of the new debt. The economic gain on the refunding is calculated as the difference between the present value of the outstanding debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid. The net present value savings, or economic gain, from the 2011 and 2012 Electric System Revenue bond refunding is \$5.5 million.

Changes in the Electric System long-term debt during the years ended December 31, 2020 and 2019, follow (in thousands):

	2018		2019		2020		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	\$ 328,085	\$ –	\$ (9,880)	\$ 318,205	\$ 49,085	\$ (59,450)	\$ 307,840
Unamortized bond premium	23,982	–	(1,771)	22,211	–	(5,381)	16,830
Unamortized bond discount	(81)	–	5	(76)	–	4	(72)
Total Debt	351,986	–	(11,646)	340,340	49,085	(64,827)	324,598
Less: Current maturities	(9,880)			(10,335)			(11,085)
<b>Total Long-Term Debt</b>	<b>\$ 342,106</b>			<b>\$ 330,005</b>			<b>\$ 313,513</b>

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

The PUD is required to maintain a cash reserve for certain Electric System bonds. At December 31, 2020 and 2019, the PUD held the reserve requirement of \$14.4 and 18.8 million, respectively, in the Electric System.

The fair value of the Electric System's long-term debt was \$384.6 million and \$377.5 million, respectively, at December 31, 2020 and 2019. The fair value of the Electric System's long-term debt is estimated based on quoted market prices for the same or similar issues.

### Generation System

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

	December 31,	
	2020	2019
	(In thousands)	
Series 2020A Revenue Refunding bonds, 5.0%, due 2021-2024	\$ 18,965	\$ —
Series 2015 Revenue bonds, 5.0%, due 2025-2045, earliest call 2025	39,985	39,985
Series 2010A Revenue Refunding bonds, 4.0-5.0%, due 2021-2024, earliest call 2020	—	26,465
Series 2010B Revenue bonds, 5.3-5.7%, due 2021-2040, currently callable	13,590	14,050
<b>Total Principal Outstanding on Long-Term Debt</b>	<b>\$ 72,540</b>	<b>\$ 80,500</b>

In October 2020, the PUD issued \$19.7 million of Series 2020A Generation System Revenue Refunding bonds at a premium of \$2.4 million and an average interest rate of 0.4%. These proceeds, along with \$5 million from the PUD's Reserves, were used to refund the Series 2010A Generation System Revenue bonds at a net carrying value of \$32.4 million and an average interest rate of 3.2% at the time of refunding. The costs of issuance of \$0.3 million were paid out of the residual bond proceeds. The difference between the funds required to refund the outstanding debt, \$26.5 million, and the net carrying amount of the outstanding debt, \$32.4 million, is recognized as a deferred inflow of resources to be amortized over the remaining life of the new debt.

The economic gain on the refunding is calculated as the difference between the present value of the outstanding debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid. The net present value savings, or economic gain, from the 2010A Generation System Revenue bond refunding is \$2.5 million.

Changes in the Generation System long-term debt during the years ended December 31, 2020 and 2019, follow (in thousands):

	2018	2019			2020		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	\$ 108,105	\$ —	\$ (27,605)	\$ 80,500	\$ 19,725	\$ (27,685)	\$ 72,540
Unamortized bond premiums	13,212	—	(1,597)	11,615	2,435	(7,291)	6,759
Unamortized bond discounts	(9)	—	—	(9)	—	—	(9)
Total Debt	121,308	—	(29,202)	92,106	22,160	(34,976)	79,290
Less: Current maturities	(27,605)			(5,310)			(4,890)
<b>Total Long-Term Debt</b>	<b>\$ 93,703</b>			<b>\$ 86,796</b>			<b>\$ 74,400</b>

The PUD is required to maintain a cash reserve for certain Generation System bonds. At December 31, 2020 and 2019, the PUD maintained the reserve requirement of \$6.0 million and \$6.5 million in the Generation System.

At December 31, 2020, the Series 1989 Generation System Revenue bonds and the Series 1986A Generation System Revenue Refunding bonds defeased in prior years were fully matured and paid.

The fair value of the Generation System's long-term debt was \$87.9 million and \$91.4 million, respectively, at December 31, 2020 and 2019. The fair value of the Generation System's long-term debt is estimated based on quoted market prices for the same or similar issues.

## Water System

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

	December 31,	
	2020	2019
	(In thousands)	
Series 2019 Revenue Refunding bonds, 5.0%, due 2021-2031, not callable	\$ 6,145	\$ 6,570
Series 2011 Revenue Refunding bonds, 4.0-5.0%, due 2021-2022, earliest call 2021	1,635	2,405
State of Washington Drinking Water Revolving Fund loans:		
equal principal payments plus 1.0% interest due annually through 2042	819	531
equal principal payments plus 1.0% interest due annually through 2034	1,744	1,868
equal principal payments plus 1.5% interest due annually through 2029	744	826
equal principal payments plus 1.5% interest due annually through 2027	448	513
equal principal payments plus 2.5% interest due annually through 2022	96	144
<b>Total Principal Outstanding on Long-Term Debt</b>	<b>\$ 11,631</b>	<b>\$ 12,857</b>

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

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

In 2019, the PUD also used \$2.3 million from the Operating Reserve to redeem the outstanding balance of the Series 2006 Water System Revenue and Refunding bonds.

Changes in the Water System long-term debt during the years ended December 31, 2020 and 2019, follow (in thousands):

	2018		2019		2020		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	\$ 15,080	\$ 6,570	\$ (12,675)	\$ 8,975	\$ –	\$ (1,195)	\$ 7,780
Unamortized bond premiums	405	1,455	(153)	1,707	–	(209)	1,498
Unamortized bond discounts	–	–	–	–	–	–	–
Other notes payable	3,670	554	(342)	3,882	313	(344)	3,851
Total Debt	19,155	8,579	(13,170)	14,564	313	(1,748)	13,129
Less: Current maturities	(1,979)			(1,537)			(1,576)
<b>Total Long-Term Debt</b>	<b>\$ 17,176</b>			<b>\$ 13,027</b>			<b>\$ 11,553</b>

The Water System periodically enters into low-interest loan agreements with the Washington State Public Works Trust Fund and the State of Washington Drinking Water Revolving Fund. These funds have provided various loans to the PUD for the repair, replacement, rehabilitation, and reconstruction of water facilities. In 2020 and 2019, the PUD initiated draw-downs of \$0.3 and \$0.5 million respectively, to pay costs associated with acquiring and improving the Warm Beach Water System which was transferred to the PUD in 2018.

The PUD is required to maintain a cash reserve for certain Water System bonds. At December 31, 2020 and 2019, the PUD maintained the reserve requirement of \$0.4 million.

The fair value of the Water System's long-term debt was \$9.5 million and \$10.5 million, respectively, at December 31, 2020 and 2019. The fair value for the Washington State Public Works Trust Fund loan and the State of Washington Drinking Water Revolving Fund loans approximate the carrying amounts since such loans are exclusive and have no market.

## Note 4

### BPA Power Purchase Agreement

The PUD is a preference customer of the Bonneville Power Administration (BPA), from which it acquired approximately 82% and 83% of its energy purchases in 2020 and 2019 respectively.

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

#### *Energy Northwest Nuclear Projects Nos. 1, 2 and 3*

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

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

## Note 5

### Generation System Projects

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

#### *Henry M. Jackson Hydroelectric Project*

The Jackson Project is a multipurpose hydroelectric project with a capacity of 111.8 megawatts. In 2020 and 2019, the Jackson Project supplied 5% and 4%, respectively, of the PUD's energy needs.

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

#### *Small Hydroelectric Projects*

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

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

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



## Note 6

### Related Party Transactions

The Generation System sells power to the Electric System at the cost of power produced including debt service and any other cash transactions. The Generation System sold \$23.1 and \$37.3 million of power in 2020 and 2019, respectively, to the Electric System.

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

Electric System loans to the Generation System were \$37.9 million and \$41.4 million at December 31, 2020 and 2019, respectively. The Generation System recorded interest expense on these loans of \$1.6 million in 2020 and \$1.7 million in 2019.

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

## Note 7

### Retirement and Deferred Compensation Plans

#### DEFINED BENEFIT PENSION PLANS

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined after that date are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Effective July 1, 2020, employees who fail to choose within 90 days default to Plan 2.

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

#### General Benefits Provided

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

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

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

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

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
		<i>(In thousands)</i>	
2020	\$ 91	\$ 14,560	\$ 2,898
2019	81	13,105	2,535
2018	81	12,667	2,572

### *PERS Plan 1 Description*

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

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

<i>Actual Contribution Rates</i>	<i>Employer</i>	<i>Employee</i>
July 2017 through August 2018	12.70%	6.00%
September 2018 through August 2020	12.83%	6.00%
September 2020 through December 2020	12.97%	6.00%

The PUD's contributions as reported by PERS to the plan were \$6.5 million, and \$6.2 million for the years ended December 31, 2020, and 2019, respectively.

### *PERS Plan 2/3 Description*

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

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

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index) capped at three percent annually and a one-time duty-related death benefit, if found eligible by

the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

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

<i>Actual Contribution Rates</i>	<i>Employer Plan 2/3</i>	<i>Employee Plan 2</i>	<i>Employee Plan 3</i>
September 2018 through June 2019	12.83%	7.41%	varies
July 2019 through August 2020	12.83%	7.90%	varies
September 2020 through December 2020	12.97%	7.90%	varies

The PUD's contributions as reported by PERS to the plan were \$10.9 million, and \$9.7 million for the years ended December 31, 2020, and 2019, respectively.

### *Pension Financial Statement Balances*

At June 30, 2020 and 2019, the PUD reported a total pension liability of \$43.8 million and \$44.8 million for its proportionate share of the net pension liabilities. The pension liability was \$29.9 million and \$33.9 million for PERS Plan 1 and \$13.9 million and \$10.9 million for PERS Plan 2/3 at June 2020 and 2019, respectively.

The PUD's proportionate share of the net pension liabilities for PERS Plan 1 was 0.85% and 0.88% for June 30, 2020 and 2019 respectively. The PUD's proportionate share of the PERS Plan 2/3 was 1.08% and 1.12% for June 30, 2020 and 2019 respectively.

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

The collective net pension liability was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

For the years ended December 31, 2020 and 2019, the PUD recognized pension credit of \$6.4 million and \$4.1 million, respectively, for PERS Plan 1 and a pension credit of \$9.5 million and \$7.0 million, respectively, for PERS Plan 2/3.

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

	2020				2019			
	PERS 1		PERS 2/3		PERS 1		PERS 2/3	
	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ —	\$ —	\$ 4,963	\$ 1,737	\$ —	\$ —	\$ 3,127	\$ 2,347
Net difference between projected and actual investment earnings on pension plan investments	—	166	—	704	—	2,264	—	15,888
Changes of assumptions	—	—	198	9,471	—	—	279	4,579
Changes in proportion and differences between contributions and proportionate share of contributions	—	—	992	2,224	—	—	1,142	1,505
Contributions subsequent to the measurement date	3,320	—	5,388	—	2,954	—	4,765	—
	<u>\$ 3,320</u>	<u>\$ 166</u>	<u>\$ 11,541</u>	<u>\$ 14,136</u>	<u>\$ 2,954</u>	<u>\$ 2,264</u>	<u>\$ 9,313</u>	<u>\$ 24,319</u>

Deferred outflows of resources related to pensions resulting from the PUD's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension (credit) expense as follows (in thousands):

Year ended December 31:	PERS 1	PERS 2/3
2021	\$ (755)	\$ (6,053)
2022	(24)	(1,675)
2023	231	(53)
2024	382	1,127
2025	—	(533)
2026 - 2027	—	(796)
Total	<u>\$ (166)</u>	<u>\$ (7,983)</u>

### Actuarial Assumptions

The Total Pension Liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the Washington Office of the State Actuary's (OSA) 2013-2018 Demographic Experience Study Report and the 2019 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, assumed interest and actual benefit payments. A variation of the Entry Age Normal (EAN) cost method is used for funding Plan 1. The aggregate actuarial cost method is used to calculate contribution rates for Plan 2/3. Other assumptions included:

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



Mortality rates were based on the H-2010 Mortality rates, which vary by member status (that is, active, retiree, or survivor), published by the Society of Actuaries. OSA applied age offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using MP-2017 generational improvement scale, developed by the Society of Actuaries. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

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

### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020, are summarized in the table below.

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

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

### Sensitivity of Net Pension Liability

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

	2020			2019		
	1% Decrease (6.4%)	Discount Rate (7.4%)	1% Increase (8.4%)	1% Decrease (6.4%)	Discount Rate (7.4%)	1% Increase (8.4%)
PERS Plan 1	\$ 37.5	\$ 29.9	\$ 23.3	\$ 42.4	\$ 33.9	\$ 26.5
PERS Plan 2/3	86.3	13.9	(45.8)	83.7	10.9	(48.8)

### Pension Liability Allocation

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

	December 31, 2020		December 31, 2019	
	PERS Plan 1	PERS Plan 2/3	PERS Plan 1	PERS Plan 2/3
Electric System	\$ 28,419	\$ 13,164	\$ 32,198	\$ 10,368
Generation System	720	372	823	296
Water System	764	328	868	251

### Pension Plan Fiduciary Net Position

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

Detailed information about each defined benefit pension plans' fiduciary net position is available in the separately issued DRS 2020 Comprehensive Annual Financial Report. The DRS Comprehensive Annual Financial Report may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia WA 98504-8380.

### POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

#### Plan Descriptions

##### Healthcare Plan

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

In general, the PUD pays a contribution toward the retiree's PUD group health plan premiums or to a Health Reimbursement Arrangement (HRA). For retirees and their dependents under age 65 who elect a PUD group medical plan, the PUD contribution is based on 75% of the premium for the most commonly elected retiree health plan during the prior year. Retirees and their dependents under age 65 who waive PUD group medical plan coverage receive a \$180 monthly contribution into their HRA. When a retiree or dependent becomes eligible for Medicare at age 65, the retiree is no longer eligible for the group medical plan; however, the PUD contributes \$180 a month to the retiree's HRA. This OPEB plan is closed to employees hired after July 1, 2009. In 2020 and 2019, the PUD contributed \$2.4 and \$2.0 million, respectively, to the plans. Plan members receiving benefits contributed \$0.6 million in both 2020 and 2019.

##### Retiree Life Insurance

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

Employees who were covered by the PUD's group term life insurance prior to November 1986 may reinstate this insurance at the time of retirement subject to a \$60,000 maximum benefit. Retiree insurance premium contribution amounts are established by the Commission. The PUD entered into an insurance contract to fully insure the life insurance obligation, and contributed \$355,000 and \$308,000 towards the premium in 2020 and 2019, respectively.

### Valuation Date, Measurement Date and Reporting Date

The Valuation Date of OPEB liability is December 31, 2018. This is the date as of which the census data is gathered and the actuarial valuation is performed. The Measurement Date is December 31, 2019. This is the date as of which the total OPEB liability is determined and rolled forward to the reporting date of December 31, 2020. The reporting date is December 31, 2020, the PUD's fiscal year-end. GASB Statement No. 75 allows a lag of up to one year between the measurement date and the reporting date. There have been no significant changes between the valuation date and fiscal year ends. No adjustment is required between the measurement date and the reporting date.

### Actuarial assumptions and other inputs

The total OPEB liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.30% based on Actuary's capital market expectations.
Salary increases	3.05% for which the assumption above inflation is based upon the most recent pension valuation for Plan 2 of the Public Employees Retirement System (PERS), a subset of the Washington State Retirement Systems.
Discount rate	2.74%
Healthcare cost trend rates	6.4 % for 2020, decreasing to an ultimate rate of 3.8 % for 2074 and later years.
Retirees' share of health benefit-related costs	25% of projected health insurance premiums for retirees.
Life insurance cost trend rates	4.5% for 2019-2027.
Retirees' share of life benefit-related costs	25% of projected life insurance premiums for retirees in 2020 and after.

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

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period ended December 31, 2018.

### OPEB Liability

As of December 31, 2020, the PUD's total OPEB liability for retiree healthcare was \$46.3 million, and \$4.9 million for retiree life benefits, recorded in other accrued and other liabilities. The annual payroll of active employees covered by the plan was \$71.8 million in 2020, compared to \$70.3 million in 2019.

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

	Healthcare	Life
Retirees (and beneficiaries for healthcare)	644	232
Active employees	554	9
	<u>1,198</u>	<u>241</u>

The following table shows the changes in the PUD's net OPEB liability (in thousands):

HEALTHCARE	2020			2019
	Electric	Generation	Water	Combined
Net OPEB liability -- beginning of year	\$ 39,778	\$ 956	\$ 999	\$ 45,806
Changes for the year:				
Service Cost	1,136	31	31	1,151
Interest on total OPEB liability	1,616	44	44	1,565
Effect of economic/demographic gains	—	—	—	794
Effect of assumptions changes or inputs	4,211	115	116	(4,629)
Expected benefit payments	(2,631)	(72)	(72)	(2,954)
Net Changes	4,332	118	119	(4,073)
<b>Net OPEB liability – end of year</b>	<b>\$ 44,110</b>	<b>\$ 1,074</b>	<b>\$ 1,118</b>	<b>\$ 41,733</b>

LIFE	2020			2019
	Electric	Generation	Water	Combined
Net OPEB liability -- beginning of year	\$ 4,188	\$ 108	\$ 109	\$ 4,882
Changes for the year:				
Service Cost	7	—	—	7
Interest on total OPEB liability	166	5	5	163
Effect of economic/demographic gains/(losses)	—	—	—	(14)
Effect of assumptions changes or inputs	619	17	17	(312)
Expected benefit payments	(283)	(8)	(8)	(321)
Net Changes	509	14	14	(477)
<b>Net OPEB liability – end of year</b>	<b>\$ 4,697</b>	<b>\$ 122</b>	<b>\$ 123</b>	<b>\$ 4,405</b>

Changes of assumptions and other inputs reflect a change in the discount rate from 4.10 percent in 2019 to 2.74 percent in 2020. The schedule of changes in the PUD's total OPEB liability and related ratios is included in the Required Supplementary Information.

### Sensitivity Analysis

#### Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the PUD, calculated using the discount rate of 2.74%, as well as what the PUD's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.74%) or 1 percentage point higher (3.74%) than the current rate (in millions):

	2020		
	1% Decrease (1.74%)	Current Discount Rate (2.74%)	1% Increase (3.74%)
Healthcare	\$ 50.9	\$ 46.3	\$ 42.3
Life	4.9	4.4	4.0



### Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate

The following presents the total OPEB liability of the PUD, calculated using the current healthcare cost trend rates as well as what the PUD's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates (in millions):

	2020		
	1% Decrease 5.40% Graded Down to 2.80%	Current Trend Rate 6.40% Graded Down to 3.80%	1% Increase 7.40% Graded Down to 4.80%
Healthcare	\$ 44.4	\$ 46.3	\$ 48.5

### OPEB Financial Statement Balances

For the year ended December 31, 2020 and 2019, the PUD recognized OPEB healthcare expense of \$3.2 million and \$2.2 million, respectively. For OPEB life insurance, the PUD recognized OPEB expense of \$0.8 million and OPEB credit of \$0.2 million for the year ended December 31, 2020 and 2019, respectively. At December 31, 2020, the PUD reported deferred outflows of resources and deferred inflows of resources related to OPEB healthcare from the following sources (in thousands):

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 449	\$ —
Changes of assumptions or other inputs	4,144	(2,617)
<b>Total</b>	<b>\$ 4,593</b>	<b>\$ (2,617)</b>

There were no deferred outflows and deferred inflows of resources related to OPEB life plan.

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to other post-employment benefits will be recognized in OPEB credit (expense) as follows (in thousands):

Measurement Period Ending December 31:	
2021	\$ (323)
2022	(323)
2023	(442)
2024	(888)
Thereafter	—
	<u>\$ (1,976)</u>

### POSTEMPLOYMENT DEFINED CONTRIBUTION AND HEALTHCARE PLANS

The PUD offers several defined contribution plans and a healthcare plan to employees.

Employees hired after July 1, 2009, are not eligible for the postemployment defined benefit healthcare plan but are instead eligible for a defined contribution healthcare plan. This plan is also known as the Retirement Health Savings (RHS) Plan. Under this plan, the PUD contributed \$53.86 per month into an employee's individual HRA account in January through March 2020. Effective April 2020, the PUD contributed \$54.00 each month into the plan. This amount will be adjusted by two percent (2%) annually, on April 1 of each calendar year. These funds are available to the employee for qualified health care costs upon separation from employment from the PUD.

The PUD administers a Non-PERS 401(a) Plan and Trust effective October 1, 1998. Participation in this profit-sharing plan is offered to eligible employees of the PUD as defined in the plan document. The plan provides certain employer contributions to participants equal to the employer contributions that would have been made to Plan 2 of PERS if participants in the plan had been eligible to participate in PERS. The PUD recorded as pension expense contributions to the 401(a) Plan

of \$19 thousand and \$22 thousand in 2020 and 2019, respectively. These funds are available to the participant following a settlement date as defined in the plan document.

The PUD administers an Internal Revenue Code Section 457 deferred compensation program, covering eligible employees as defined in the plan document. Participants may contribute and defer, up to defined limits, a portion of their current year's salary. There is no contribution to this plan from the PUD. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency. All plan assets are held in trust for the exclusive benefit of participants and their beneficiaries.

The PUD administers a 401(k) Savings Plan effective May 1, 1985. Participation in the plan is offered to eligible employees of the PUD as defined in the plan document. The plan is a defined contribution plan, which provides that participants may make voluntary salary deferral contributions, on a pretax basis, up to a maximum amount as indexed for cost-of-living adjustments. In 2020, the contribution limit for employees was \$19,500. The catch-up contribution limit for employees aged 50 and over was \$6,500. Employee contributions are fully vested. Employer contributions are vested after 3 years of employment. From January through June 2020, the PUD made matching contributions in an amount equal to 50% of the first 4% of a participant's compensation contributed as a salary deferral. Effective July 2020, the PUD made matching contributions in an amount equal to 100% of the first 2% of a participant's compensation contributed as a salary deferral. The PUD recorded as pension expense for matching contributions to the 401(k) Savings Plan of \$2.1 million and \$1.9 million in 2020 and 2019, respectively.

## **Note 8**

### **Self-Insurance Fund**

The PUD maintains a comprehensive insurance program that includes liability insurance coverage of \$50 million in excess of a \$2 million self-insured retention per occurrence. This coverage insures against certain losses arising from property damage or bodily injury damage claims filed by third parties against the PUD. At December 31, 2020, the PUD's \$2 million self-insured retention was fully funded. Self-insurance funds are included in special funds at market value, with a balance of \$10.0 million as of December 31, 2020 and 2019.

## **Note 9**

### **Contingencies**

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

The PUD has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

## REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

### SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – PERS

As of June 30 (In thousands)

PERS 1	2020	2019	2018	2017	2016
Employer's proportion of the net pension liability (asset)	0.85%	0.88%	0.87%	0.87%	0.91%
Employer's proportionate share of the net pension liability	\$ 29,903	\$ 33,889	\$ 38,769	\$ 41,111	\$ 48,809
Employer's covered employee payroll	\$ 649	\$ 642	\$ 608	\$ 768	\$ 1,059
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	4,607.55%	5,278.66%	6,376.48%	5,352.03%	4,610.37%
Plan fiduciary net position as a percentage of the total pension liability	68.64%	67.12%	63.22%	61.24%	57.03%

PERS 2/3	2020	2019	2018	2017	2016
Employer's proportion of the net pension liability (asset)	1.08%	1.12%	1.10%	1.10%	1.14%
Employer's proportionate share of the net pension liability	\$ 13,864	\$ 10,915	\$ 18,707	\$ 38,094	\$ 57,276
Employer's covered employee payroll	\$ 126,542	\$ 122,155	\$ 114,293	\$ 107,494	\$ 106,886
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	10.96%	8.94%	16.37%	35.44%	53.59%
Plan fiduciary net position as a percentage of the total pension liability	97.22%	97.77%	95.77%	90.97%	85.82%

#### Notes to Schedule:

Factors that significantly affect trends in the amounts reported in the schedule include changes in benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions such as the discount rate. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 in order to fund its unfunded actuarially accrued liability.

### SCHEDULE OF EMPLOYER CONTRIBUTIONS – PERS

As of December 31 (in thousands)

PERS 1	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contributions	\$ 91	\$ 81	\$ 81	\$ 71	\$ 98	\$ 124	\$ 155	\$ 152	\$ 158	\$ 160
Contributions in relation to the contractually required contributions	(91)	(81)	(81)	(71)	(98)	(124)	(155)	(152)	(158)	(160)
Contribution deficiency (excess)	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Covered employer payroll	\$ 705	\$ 632	\$ 632	\$ 594	\$ 879	\$ 1,221	\$ 1,611	\$ 1,854	\$ 2,196	\$ 2,574
Contributions as a percentage of covered employee payroll	12.91%	12.82%	12.82%	11.95%	11.15%	10.14%	9.62%	8.20%	7.19%	6.22%

PERS 2/3	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contributions	\$ 17,458	\$ 15,640	\$ 15,239	\$ 13,267	\$ 11,925	\$ 10,581	\$ 8,989	\$ 7,668	\$ 6,619	\$ 5,337
Contributions in relation to the contractually required contributions	(17,458)	(15,640)	(15,239)	(13,267)	(11,925)	(10,581)	(8,989)	(7,668)	(6,619)	(5,337)
Contribution deficiency (excess)	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Covered employer payroll	\$135,327	\$121,760	\$119,564	\$110,945	\$106,716	\$103,383	\$ 97,703	\$ 93,277	\$ 92,171	\$ 85,198
Contributions as a percentage of covered employee payroll	12.90%	12.84%	12.75%	11.96%	11.17%	10.23%	9.20%	8.22%	7.18%	6.26%

## SCHEDULE OF CHANGES IN TOTAL OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY AND RELATED RATIOS

As of December 31 (in thousands)

	2020 Post-Employment		2019 Post-Employment		2018 Post-Employment	
	Health	Life	Health	Life	Health	Life
Total OPEB Liability						
Service cost	\$ 1,198	\$ 7	\$ 1,151	\$ 7	\$ 1,066	\$ 12
Interest on total OPEB liability	1,704	175	1,565	163	1,673	177
Effect on economic/demographic gains/(losses)	—	—	794	(14)	—	—
Effect of assumption changes or inputs	4,442	653	(4,629)	(312)	1,395	178
Expected benefit payments	(2,775)	(298)	(2,954)	(321)	(3,007)	(305)
Net change in total OPEB liability	\$ 4,569	\$ 537	\$ (4,073)	\$ (477)	\$ 1,127	\$ 62
Total OPEB liability, beginning	41,733	4,405	45,806	4,882	44,679	4,820
Total OPEB liability, ending	\$ 46,302	\$ 4,942	\$ 41,733	\$ 4,405	\$ 45,806	\$ 4,882
Covered employee payroll	\$ 71,826	N/A	\$ 70,291	N/A	\$ 71,696	N/A
Total OPEB liability as a % of covered employee payroll	64.46%	N/A	59.37%	N/A	63.89%	N/A

### Notes to Schedule:

There are no changes of benefit terms.

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic, and health assumptions each period. Discount rate used in 2020: 2.74%; 2019: 4.10%; 2018: 3.44%.

The PUD has established a fund to address the unfunded portion of future post-employment benefits. The balance of this account was \$34.9 million and \$32.2 million as of December 31, 2020 and 2019, respectively, and is included in special funds on the statements of net position. Since these funds have not been placed in an irrevocable trust, the PUD has not reduced the unfunded actuarial liability by these funds. Effective January 1, 2015, the PUD has entered into an insurance product that is expected to fund the remaining life insurance liability.



## Electric System Statements of Revenues, Expenses, and Debt Service Coverage (Unaudited)

(In thousands)

Years Ended December 31,	2016	2017	2018	2019	2020
<b>Operating Revenues:</b>					
Sale of electric energy	\$ 602,811	\$ 643,121	\$ 647,228	\$ 645,833	\$ 651,763
Other operating revenues	28,100	28,685	36,878	28,451	32,088
Unbilled revenues	8,720	1,500	(1,921)	(2,700)	(5,300)
<b>Total Operating Revenues</b>	<b>639,631</b>	<b>673,306</b>	<b>682,185</b>	<b>671,584</b>	<b>678,551</b>
<b>Operating Expenses:</b>					
Purchased power	347,494	333,338	333,705	349,909	312,131
Operations and maintenance	208,695	219,526	221,225	211,571	239,235
Depreciation	51,460	53,191	53,624	55,493	57,202
Taxes	35,448	37,994	38,668	38,710	38,525
<b>Total Operating Expenses</b>	<b>643,097</b>	<b>644,049</b>	<b>647,222</b>	<b>655,683</b>	<b>647,093</b>
<b>Net Operating Income (Loss)</b>	<b>(3,466)</b>	<b>29,257</b>	<b>34,963</b>	<b>15,901</b>	<b>31,458</b>
<b>Interest Charges</b>	<b>14,154</b>	<b>13,959</b>	<b>14,455</b>	<b>15,966</b>	<b>15,401</b>
<b>Other Income and Expense:</b>					
Interest income	5,015	5,781	9,679	11,895	8,577
Net increase (decrease) in the fair value of investments	156	(456)	1,002	2,078	2,513
Other income and expense, net	7,654	3,954	(7,090)	6,731	(4,262)
<b>Total Other Income and Expense</b>	<b>12,825</b>	<b>9,279</b>	<b>3,591</b>	<b>20,704</b>	<b>6,828</b>
<b>Capital Contributions:</b>					
Cash contributions	15,493	17,338	18,053	24,645	23,003
Non-cash contributions	4,601	5,010	6,598	9,098	5,442
<b>Total Capital Contributions</b>	<b>20,094</b>	<b>22,348</b>	<b>24,651</b>	<b>33,743</b>	<b>28,445</b>
<b>Net Income</b>	<b>15,299</b>	<b>46,925</b>	<b>48,750</b>	<b>54,382</b>	<b>51,330</b>
Non-cash contributions	(4,601)	(5,010)	(6,598)	(9,098)	(5,442)
Interest charges	14,154	13,959	14,455	15,966	15,401
Depreciation	51,460	53,191	53,624	55,493	57,202
Pension & OPEB liability actuarial adjustments	171	(6,889)	(12,964)	(13,747)	(16,207)
Net increase (decrease) in the fair value of investments	(156)	456	(1,002)	(2,078)	(2,513)
Project termination charge	–	–	9,637	–	8,465
<b>Balance Available for Debt Coverage</b>	<b>76,327</b>	<b>102,632</b>	<b>105,902</b>	<b>100,918</b>	<b>108,236</b>
<b>Parity Debt Service Costs:</b>					
Interest	18,186	17,774	17,358	16,937	16,179
Principal	8,669	9,080	9,495	9,918	10,400
<b>Total Parity Debt Service Costs</b>	<b>\$ 26,855</b>	<b>\$ 26,854</b>	<b>\$ 26,853</b>	<b>\$ 26,855</b>	<b>\$ 26,579</b>
<b>Parity Debt Service Coverage</b>	<b>2.8x</b>	<b>3.8x</b>	<b>3.9x</b>	<b>3.8x</b>	<b>4.1x</b>

## Electric System Revenue and Statistical Data (Unaudited)

Years Ended December 31,	2016	2017	2018	2019	2020	% Change From 2019
<b>Retail Customers (average)</b>						
Residential	309,761	314,323	318,421	322,225	327,475	1.6%
Commercial	31,046	31,357	31,712	32,443	33,317	2.7%
Industrial	77	81	80	81	82	1.2%
Other	225	221	205	204	202	-1.0%
<b>Retail Customers</b>	<b>341,109</b>	<b>345,982</b>	<b>350,418</b>	<b>354,953</b>	<b>361,076</b>	<b>1.7%</b>
<b>Megawatt-Hours Billed</b>						
Residential	3,368,728	3,642,117	3,566,731	3,603,089	3,724,600	3.4%
Commercial	2,335,126	2,371,339	2,363,415	2,373,169	2,226,949	-6.2%
Industrial	555,919	553,544	528,244	527,237	472,618	-10.4%
Wholesale	2,220,976	2,227,442	2,016,038	1,401,511	2,060,403	47.0%
Other	25,971	27,137	29,000	27,728	28,465	2.7%
<b>Megawatt-Hours Billed</b>	<b>8,506,720</b>	<b>8,821,579</b>	<b>8,503,428</b>	<b>7,932,734</b>	<b>8,513,035</b>	<b>7.3%</b>
<b>Revenues Billed (in thousands)</b>						
Residential	\$ 324,675	\$ 360,906	\$ 362,924	\$ 366,804	\$ 379,219	3.4%
Commercial	199,982	205,652	208,405	209,058	196,880	-5.8%
Industrial	37,521	37,762	36,729	36,611	32,972	-9.9%
Wholesale	37,076	34,947	34,985	29,317	38,783	32.3%
Other	3,557	3,854	4,185	4,043	3,909	-3.3%
<b>Revenues Billed</b>	<b>\$ 602,811</b>	<b>\$ 643,121</b>	<b>\$ 647,228</b>	<b>\$ 645,833</b>	<b>\$ 651,763</b>	<b>0.9%</b>
<b>Average Retail Rate per kWh:</b>						
Residential	\$ 0.096	\$ 0.099	\$ 0.102	\$ 0.102	\$ 0.102	0.0%
Commercial	\$ 0.086	\$ 0.087	\$ 0.088	\$ 0.088	\$ 0.088	0.0%
Industrial	\$ 0.067	\$ 0.068	\$ 0.070	\$ 0.069	\$ 0.070	1.4%
Number of Employees	1,002	1,004	1,005	1,046	1,085	3.7%
Electric Line Miles	6,388	6,439	6,496	6,547	6,581	0.5%
New Electric Service Connections	4,510	5,132	4,341	4,339	5,638	29.9%

## Water System

### Statements of Revenues, Expenses, Debt Service Coverage, and Statistical Data (Unaudited)

(In thousands)

Years Ended December 31,	2016	2017	2018	2019	2020
<b>Operating Revenues:</b>					
Sale of water	\$ 11,749	\$ 12,753	\$ 13,133	\$ 13,361	\$ 13,755
Other operating revenues	325	344	397	403	368
<b>Total Operating Revenues</b>	<b>12,074</b>	<b>13,097</b>	<b>13,530</b>	<b>13,764</b>	<b>14,123</b>
<b>Operating Expenses:</b>					
Purchased water	2,096	2,585	2,438	2,596	2,925
Operations and maintenance	4,816	5,180	5,091	5,239	5,764
Depreciation	2,794	2,875	2,932	3,028	3,191
Taxes	628	641	688	726	754
<b>Total Operating Expenses</b>	<b>10,334</b>	<b>11,281</b>	<b>11,149</b>	<b>11,589</b>	<b>12,634</b>
<b>Net Operating Income</b>	<b>1,740</b>	<b>1,816</b>	<b>2,381</b>	<b>2,175</b>	<b>1,489</b>
<b>Interest Charges</b>	<b>735</b>	<b>705</b>	<b>614</b>	<b>743</b>	<b>312</b>
<b>Other Income and Expense:</b>					
Interest income	200	246	418	610	377
Net increase (decrease) in the fair value of investments	9	(26)	46	55	(14)
Other income and expense, net	939	945	–	28	(22)
<b>Total Other Income and Expense</b>	<b>1,148</b>	<b>1,165</b>	<b>464</b>	<b>693</b>	<b>341</b>
<b>Capital Contributions:</b>					
Cash contributions	2,862	2,120	3,441	4,286	4,273
Non-cash contributions	658	1,609	2,277	4,158	2,081
<b>Total Capital Contributions</b>	<b>3,520</b>	<b>3,729</b>	<b>5,718</b>	<b>8,444</b>	<b>6,354</b>
<b>Net Income</b>	<b>5,673</b>	<b>6,005</b>	<b>7,949</b>	<b>10,569</b>	<b>7,872</b>
Non-cash contributions	(658)	(1,609)	(2,277)	(4,158)	(2,081)
Interest charges	735	705	614	743	312
Depreciation	2,794	2,875	2,932	3,028	3,191
Settlement amortization <sup>1</sup>	(927)	(927)	–	–	–
Pension and OPEB liability actuarial adjustments	4	(178)	(348)	(354)	(446)
Net increase (decrease) in the fair value of investments	(9)	26	(46)	(55)	14
<b>Balance Available for Debt Coverage</b>	<b>7,612</b>	<b>6,897</b>	<b>8,824</b>	<b>9,773</b>	<b>8,862</b>
<b>Parity Debt Service Costs:</b>					
Interest	814	755	695	617	418
Principal	1,701	1,705	1,706	1,621	1,195
Total Parity Debt Service Costs	2,515	2,460	2,401	2,238	1,613
Less: Assessment payments received	(75)	(90)	(65)	(32)	(15)
<b>Debt Service Paid from Revenues</b>	<b>\$ 2,440</b>	<b>\$ 2,370</b>	<b>\$ 2,336</b>	<b>\$ 2,206</b>	<b>\$ 1,598</b>
<b>Parity Debt Service Coverage</b>	<b>3.1x</b>	<b>2.9x</b>	<b>3.8x</b>	<b>4.4x</b>	<b>5.5x</b>
<b>Number of Water Customers (average)</b>	<b>19,895</b>	<b>20,293</b>	<b>20,808</b>	<b>21,635</b>	<b>22,161</b>
<b>Water Sales &amp; Purchases (thousand cubic feet):</b>					
Retail Cubic Feet Sold	178,826	198,117	197,606	196,688	204,000
Wholesale Cubic Feet Sold	16,802	22,189	24,003	26,837	29,373
<b>Total Cubic Feet Sold</b>	<b>195,628</b>	<b>220,306</b>	<b>221,609</b>	<b>223,525</b>	<b>233,373</b>
<b>Average Retail Water Rates (thousand cubic feet)</b>					
Residential	\$3.46	\$3.46	\$3.52	\$3.52	\$3.52
Commercial	\$3.12	\$3.12	\$3.24	\$3.24	\$3.24

<sup>1</sup> Annexation settlement with the City of Marysville was amortized over 5 years, 2013-2017.





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