



# *Powering Forward to...*



## 2021 Annual Report





**...a clean energy future**

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*Hydroelectric power accounts for more than 85% of the PUD's portfolio of generation resources.*



# Greetings

*from the Commissioners*



*Tanya Olson*  
Tanya "Toni" Olson



*Rebecca J. Wolfe*  
Rebecca Wolfe



*Sid Logan*  
Sid Logan

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

During this challenging time, we continue the work necessary to keeping your lights on and water flowing. Many of our employees continued with remote work and all employees worked with COVID-19 protocols in place. With health and safety as priorities, we continued to hold our commission meetings virtually to keep connected with customers and PUD employees. Despite these challenges, the PUD completed critical projects, moved forward on important programs and served our

customers every day.

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 over 367,000 electric customers and more than 22,000 water customers.

We are pleased to share this 2021 annual report and are proud of the accomplishments of our employees and customers during a unique 12 months.

# Message from the CEO/GM

*John Haarlow*



**W**ell, we did it! We made it through another tumultuous year. The continuing roller coaster ride of the pandemic was joined with plenty of challenges for businesses, individuals and certainly the utilities, including this one.

We chose to see many of our challenges as opportunities to learn and grow. We worked to face whatever each day brought and deliver our best every day.

Challenges included the pandemic raging at times through our communities and even through our employee population, despite the strong steps we put in place to keep our team safe. We faced extreme cold storm events and, for the first time ever, a record-breaking heat event in June that surpassed our summer peak by nearly 200 megawatts. We also broke our water usage records by more than three million gallons. And, like many businesses and utilities, we've been faced with unexpected supply-chain issues creating the need for us to be creative and innovative while we wait for needed supplies.

Still, even with the challenges, we embraced the opportunity to serve in some big ways.

We launched new, cutting-edge programs that give our customers more choices and options. We provided electric vehicle (EV) charger rebates and free charging for a year to new EV owners. We worked toward a more sustainable future by planting a food forest at our Woods Creek Hydro Project allowing us to donate fruits and vegetables to our local communities.

For our customers reeling from the economic impacts of the pandemic, we proactively reached out to those behind on their bills and worked with them to help make payment arrangements. Our conservation efforts exceeded our goals, helping customers reduce their energy use. And we partnered with community groups around our service area to assist our income-challenged customers in needed and supportive ways.

Maybe, most exciting of all, we did it with our all-time best safety record. Safety above all else remains our top value.

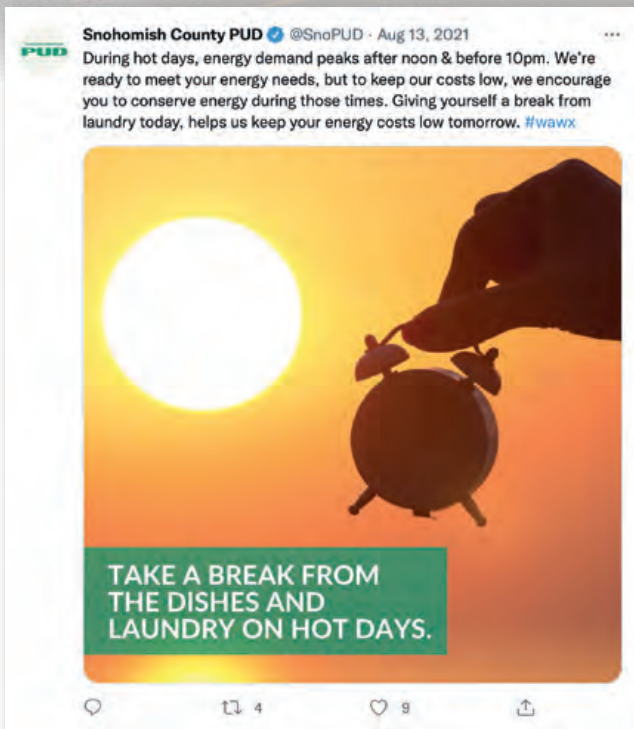
We also spent significant time on two of my favorite activities. We are hard at work getting aligned on our future through our strategic planning process and making major strides to ensure everyone feels valued and welcomed through our diversity, equity, and inclusion efforts.

There is simply so much to share – this just skims the surface. This annual report brings a more in-depth look at the year we had in 2021, and I hope you take the time to give our accomplishments a good look. We are an organization where amazing things are happening! And as excited as I am to review last year, I am much more excited by all we have ahead as we move boldly into the future. Thank you for your support and interest.





# ...enhanced reliability



**T**he PUD continued to provide reliable service for its customers despite record temperatures on both ends of the thermometer in 2021.

In late June, the Puget Sound region recorded temperatures over 100 degrees for several days in a row. The PUD broke its summer peak-demand record by 200 megawatts and water usage by more than three million gallons. Less than six months later, a cold snap brought sub-freezing temperatures to the PUD's service area for six consecutive days. On December 27, with highs in the low 20s and lows in single digits, the PUD set a record for peak load of 1,526 megawatts. Due to good planning and proactive trading by

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*Left, a PUD Facebook post from one of the many days of record heat in the summer of 2021.*



the Power Scheduling group, the PUD was well-positioned to meet customer demand during these events.

Construction was completed on the Arlington Microgrid, which went live in July. The solar array will send power to charge the lithium-ion battery storage system to provide for improved renewable energy integration and grid support. The goal is to ensure reliability for critical PUD infrastructure in the wake of a large natural disaster or emergency. The Microgrid's Vehicle-to-Grid (V2G) bi-directional charging system is the first of its kind for any utility company in North America. The PUD has partnered with a national lab, as well as the University of Washington, for two separate projects to study the technology.

After a snowstorm near Index led to power outages for up to a week and limited access to damaged poles and wires, PUD officials met with community members and elected officials to collaborate on a solution to make the next big storm less impactful. As a result, the PUD installed six Trip Saver Reclosers on poles along Highway 2. These provide an automatic quick-test option for feeders and laterals. The PUD is using these Trip Saver Reclosers as a pilot for the new technology and may expand them to other hard-to-reach areas in the PUD service area if they're found to be successful.

The PUD completed several additional construction projects and renovations, including completion of the new Twin City Substation. This double-bank substation is located in Stanwood and is critical for increasing reliability for PUD customers in



*A lineworker tends to snow-laden lines near Index in February 2021.*

Stanwood and on Camano Island. The PUD also worked to upgrade systems to serve major new business customers in Smokey Point, including Northpoint and Amazon.

Every year, on average, the PUD replaces about 500 aging poles, assess-

es and treats more than 25,000 poles and replaces 20 to 30 miles of aging underground cables throughout the utility's service area. It also trims trees on over 450 circuit miles each year to aid in reliability.



*The Arlington Microgrid's lithium-ion battery storage system with the Clean Energy Center in the background.*






## ...a culture of safety

**T**he PUD continues to make the safety of its employees and customers its number one priority. In 2021, as the PUD continued to navigate the COVID-19 pandemic, it instituted multiple safety measures to ensure it could continue to provide electricity and water to its customers in a safe manner.

Employee safety remains the driving focus for the PUD. For the first time since the PUD started keeping safety statistics in 1985, its recordable injury rate was below the OSHA Industry Standard at 4.24. It's the lowest injury rate the PUD has had in 40 years. In addition, the PUD saw a decrease in preventable vehicle accidents from 21 to 14, despite driving over 600,000 more miles than the previous year. Backing accidents also de-

**ZERO**   
**RISKY**  
**BUSINESS**  
**PUD**  
**SAFETY DAYS 2021**

*Above, Pole-Top Rescue demonstrations were part of the PUD's Zero Risky Business-themed Safety Days for its employees.*

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creased.

Many PUD employees continued to meet virtually as senior leadership eagerly awaited the day all employees could return to their offices full time. As some employees returned, check-in stations were utilized at all PUD offices and worksites. Along with the PUD's Contact Tracing team, these stations helped notify workers of potential exposures. In addition, the PUD offered employees voluntary testing options, as well as vaccination clinics for employees and their families.

Safety measures allowed the PUD to return to an in-person employee Safety Days in 2021. The keynote speaker was Gordon Graham, a 33-year veteran of California Law Enforcement and a practicing attorney focusing on risk management. On-site demonstrations for the event included rides in PUD bucket trucks, fire-extinguisher training, emergency shutting off of water meters, K-9 unit police dogs and drone demonstrations.

PUD Entry Helper Austin Grant was awarded the General Manager's Life Saving Award for Heroism after an incident in May. Austin was flagging for a line crew in Mukilteo when he noticed a vehicle traveling at a high rate of speed toward the work zone. He called out to warn the crew and was barely able to dodge the speeding vehicle himself. The vehicle contacted outriggers on both bucket trucks; however, Austin's early warning gave crew members time to brace for impact and avoid major injuries.

In addition, Senior Environmental Coordinator in the Generation De-



*Entry Helper Austin Grant.*

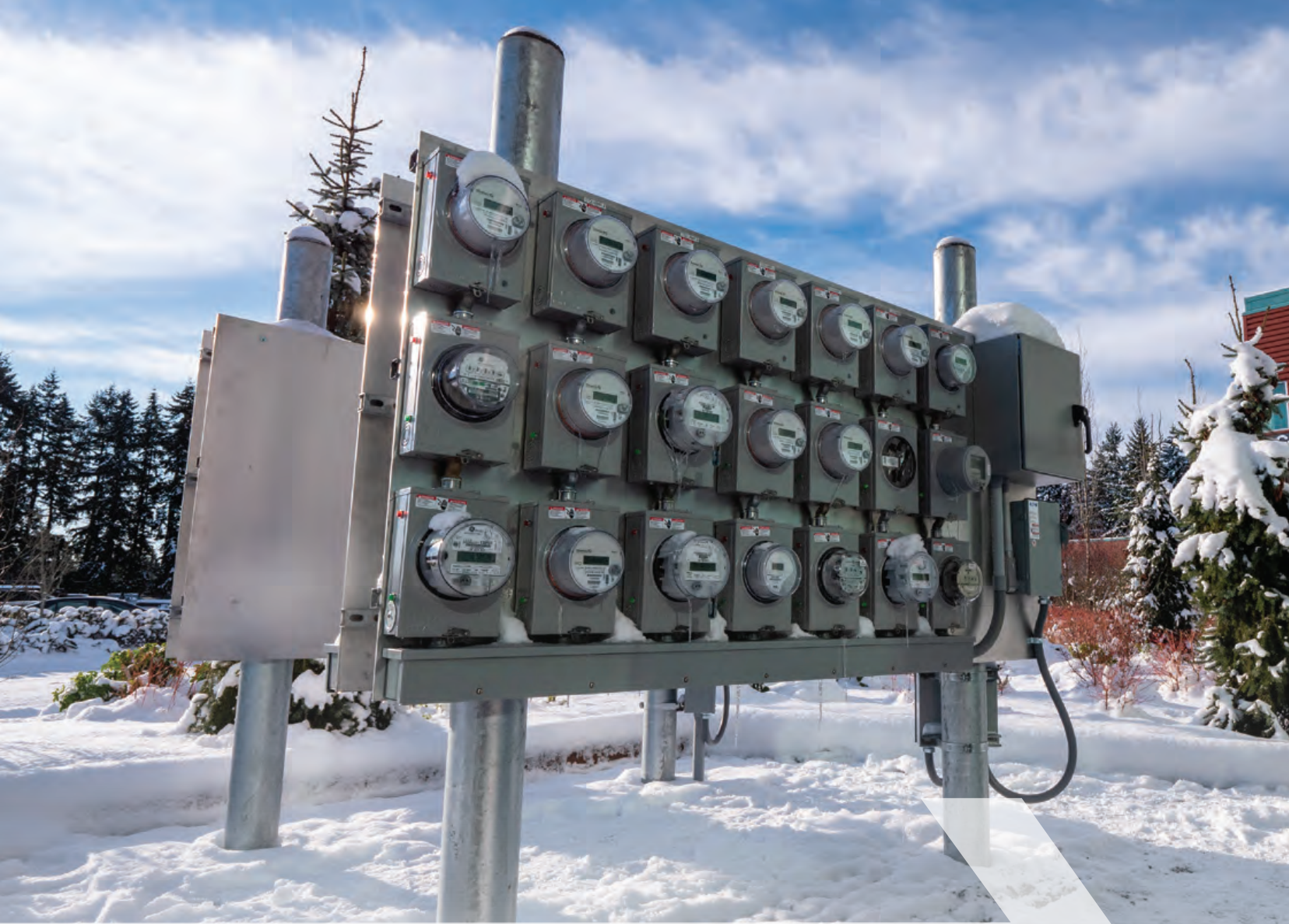
partment Andrew McDonnell was also awarded the General Manager's Life Saving Award for Heroism after rescuing a colleague who was injured

and laying in the Sultan River. Andrew got his colleague to a raft and notified first responders, who quickly arrived on the scene to help.



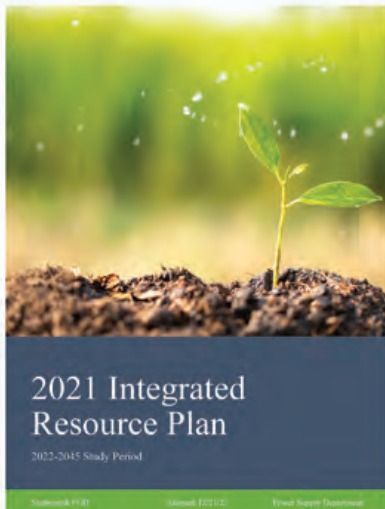
*Senior Environmental Coordinator Andrew McDonnell.*





## ...prepare for the future

*Above, the Connect Up meter farm.*



In 2021, the PUD continued its multi-year strategic planning effort to develop a long-term strategy and operating plan that ensures the PUD is prepared to serve its communities regardless of what the future brings. This requires establishing clarity around the fundamental questions regarding the PUD's purpose, vision, values and anchors of success.

The strategic planning team spent significant time discussing the core message of why the PUD exists. Delivering essential utility services to help our communities thrive was the main message for PUD decision-making in the years to come. The primary drivers toward this mission and vision will center around being a powerful partner, providing exceptional value, delivering excellent experiences, and being the best Team PUD.

With the long-term focus summarized, the PUD began working with a larger group of employees to develop alternate plausible scenarios of what local com-

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munities might look like in 2040 and how best to serve them under each of those conditions. These scenarios were used by senior leadership to understand the risks and opportunities that potentially lay ahead, as well as to help the utility plan for serving customers in the future. Going forward, the team and senior leadership are developing strategic initiatives and operation plans to support near-term efforts, in hopes of completing this work in late 2022.

In addition to the strategic planning efforts, the PUD's Generation group embarked on updating the Integrated Resource Plan (IRP). This significant effort focused on the long-term resources needed to effectively operate the PUD in future decades. The IRP focused on five key takeaways: being prepared to rise to the challenges of the future, Advanced Metering Infrastructure (AMI) is key, being well positioned for the Clean Energy Transformation Act, dealing with a lot of uncertainty, and, for the first time, identifying energy storage as a future

need. The IRP was adopted by the Commission in December.

This past year was a big one for the PUD's Connect Up project. One of the largest projects the PUD has ever taken on – the planning, installation and use of advanced meters – will affect every department at the PUD as well as engage every one of their customers. In 2021, planning for the Connect Up program continued with the blueprinting process, which was used to map out the rest of the multi-year project.

The foundational principles for the Connect Up project were established, focusing on building basic business processes for future capabilities, integration between different areas and an emphasis on training. In December 2021, the PUD unveiled its new meter farm at its Operations Center. The meter farm is a bank of more than a dozen advanced meters that are connected to the PUD through a network. This allows the utility to test and monitor how the meters work in

real-time outdoor conditions. The advanced meters were immediately put to the test, experiencing prolonged sub-freezing temperatures.

The PUD launched customer recruitment for its FlexEnergy pilots in May. The FlexEnergy program gauges ways to help modify customer behavior and reduce peak energy consumption. The program analyzes time-of-day rates and demand response. The pilots officially launched in October.

Most recently, the PUD called two FlexEnergy events during the cold snap to end the year: on December 27 and 29, from 5 to 9 p.m. These events encouraged FlexEnergy customers to decrease their usage during the peak event hours through price signals and incentives. In the future, following the deployment of new advanced meters through the Connect Up project, programs like FlexEnergy could lower demand during peak periods, saving the PUD and customers money.



*The Distributed Energy Resources Team, who championed the FlexEnergy project, were honored with a Grid Forward Grid Innovator award in June 2021.*





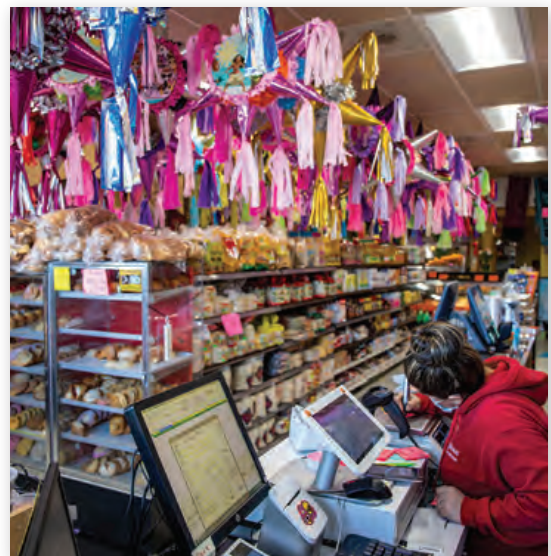
## ...help customers conserve

**T**he PUD continues to demonstrate a commitment to conservation and earn national recognition for projects dedicated to energy efficiency. Working with local customers, the PUD has found numerous ways to encourage customer use of energy-efficient products, saving the PUD energy and money.

The PUD's robust energy-efficiency programs helped reduce overall residential energy needs by more than 18 million kilowatt-hours (kWh) in 2021, saving customers approximately \$1.9 million (in first-year savings). By reducing the demand for electricity, the PUD is better able to keep residential rates steady and ensure there is enough energy to serve all customers – especially during times of peak, or high, usage.

To help customers achieve greater energy efficiency, the PUD provided more than \$5.8 million in product incentives and rebates in 2021. Residential customers used those rebates to purchase en-

*Above, Energy Efficiency Program Manager Sheri Miller worked with Habitat for Humanity to save the non-profit \$628 monthly on lighting. Below, Los Portales also benefited from lighting savings in 2021.*



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energy-saving appliances, including approximately 2,700 washers and dryers, 1,800 smart thermostats and 500 ductless heat pumps. Rebates also helped customers save on 1,900 windows and nearly 91,000 square feet of insulation.

Business customers also benefited from the PUD's energy-efficiency efforts. There were nearly 14 million kWh saved in business projects in 2021, reducing overall energy demand by more than 2.2 million kWh.

More than 1.35 million kWh of the business energy savings came from the PUD's Small Business Direct Install program with Puget Sound Energy. This program works with shared customers of various small and medium-sized businesses such as office space, convenience grocery, small retail and other commercial businesses to install measures that provide instant energy savings. The utility provided over 1.7 million kWh savings to small businesses impacted by the COVID-19 pandemic by offering no-cost or low-cost energy-efficiency items such as smart power strips, screw-in LED lamps and shower heads.

The PUD continued to offer bundles of energy-efficient products to local businesses. Each bundle targeted a separate segment of customers who were highly impacted by the pandemic: restaurants, retail establishments and office spaces. Bundles contain a mix of LED bulbs, LED exit signs, spray valves, smart power strips and faucet aerators. The program has awarded 1,488 bundles since its creation in October 2020, including 641 business bundles handed out in 2021.

To aid in the energy-efficient construction of new buildings, the PUD launched the Energy Design Assis-



*Market Segments Manager Jeff Feinberg (center) accepts the Smart Energy Award on behalf of the PUD.*

tance program in 2021. Benefits of the program include performance-based incentives for highly energy-efficient buildings, design team stipends and potential additional incentives for all-electric buildings. The goal of the program is to help customers maximize efficiency for long-term cost savings prior to construction, while helping the PUD best manage energy resources. Commercial, industrial and multifamily buildings are all potentially eligible for the program. In the first year, the program greatly exceeded targets for participation with 28 projects beginning.

In addition to rebates and incentives, the PUD also partnered with Snohomish County Weatherization to provide no-cost weatherization savings of almost 160,000 kWh to many homes in the community. Beyond energy efficiency, the PUD continued to work with electric vehicle (EV) owners to provide incentives for over 860 level 2 connected chargers. These chargers will support EV owners now and into the future as the PUD continues to introduce new demand response rate

designs.

In April, the PUD received the 2021 ENERGY STAR Award for Excellence for promotional efforts in expanding energy-efficiency outreach and delivering 35,000 free ENERGY STAR certified bundles to customer households, resulting in over 4.3 million kilowatt-hours (kWh) saved. It was the second consecutive year the PUD has been honored with the U.S. Environmental Protection Agency's ENERGY STAR Award for its energy-efficiency efforts.

The PUD was also named a Smart Energy Provider (SEP) by the American Public Power Association. The PUD is one of just 70 public power utilities in the nation to earn the designation. SEP designees are recognized for demonstrating commitment to, and proficiency in, energy efficiency, distributed generation and environmental initiatives that support a goal of providing low-cost, quality, safe and reliable electric service.





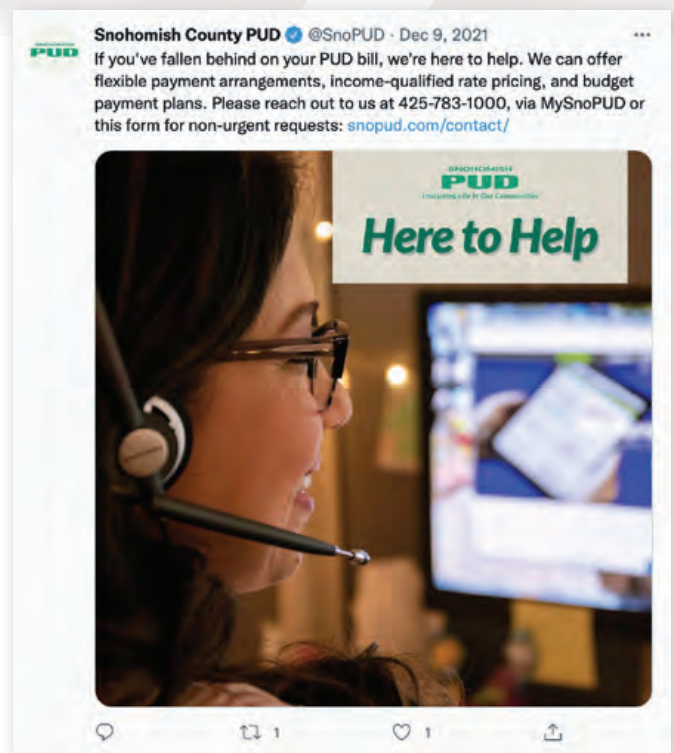
## ...delight our customers

Despite offices remaining closed due to health and safety concerns, the PUD continued to assist customers and help those in need of financial assistance due to the COVID-19 pandemic. The PUD served customers through a broad range of channels including its call center, videos with CEO/GM John Haarlow and Snopud.com, its newly revamped customer-facing website.

When the state lifted the moratorium on disconnections, the PUD didn't immediately return to its pre-COVID practices. Instead, its Customer Service team continued to proactively reach out to customers behind on their bills

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*Above, the PUD's new website launched at the end of 2021. Right, a PUD social media post directed to customers financially impacted by the COVID-19 pandemic. The utility's Customer Service team proactively reached out as well.*





and work with them to help make arrangements and get them back on track. The PUD also distributed free energy-efficiency bundles to income-qualified customers to help lower their energy burden.

Not only did the PUD expand its own income-qualified assistance programs and streamline the process to get help, but it engaged county, state and federal partners to help ensure that customers could access the help that was available to them as seamlessly as possible. It assisted more than 1,320 households through the Federal Emergency Rental Utility Assistance Program and nearly 10,000 through LIHEAP, a federal low-income heating program.

The PUD's Customer Service team completed a "10-day blitz" to connect 16,000 customers who received direct discounts through the PUD with the county's Energy Assistance Program before it closed for the year. Through this effort, the PUD's Customer Service team connected 1,100 additional customers with the grant program.

In addition, the PUD wanted to create additional opportunities for customers in severe hardship. Customers with an outstanding balance of over \$10,000 were mailed notices to encourage them to reach out to the PUD for help. Customers who didn't respond received a "knock and talk," with a field representative going to the customer home prior to a disconnect. This was a new way to engage customers who may be facing incredible stress or anxiety. The pilot program successfully reached all but one of its initial participants, with that person later calling the PUD and receiving assistance after power was discon-



*The popular MySnoPUD portal provides customers a convenient way to check their energy usage, pay their utility bill or view past bills.*

nected.

PUD employees continued to make improvements to the customer-payment portal MySnoPUD, including upgrading the Auto Pay feature and allowing customers to set up payment arrangements to extend their due date.

MySnoPUD launched in October 2020 and had over 300,000 visits in its first four months.

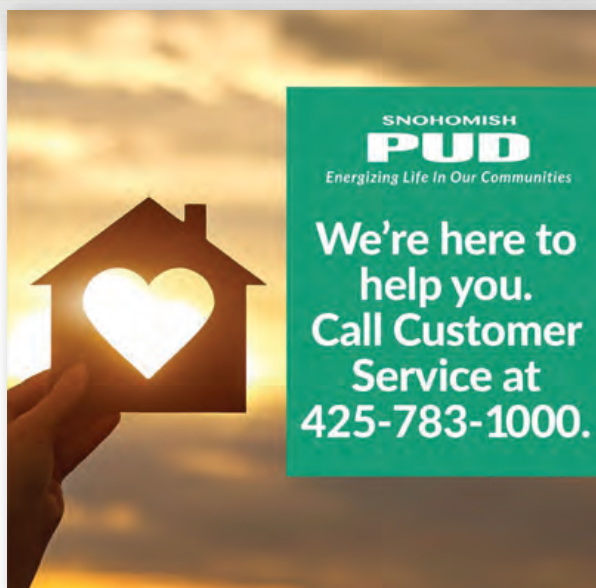
In November, the PUD launched a new and improved Snopud.com, giving customers an upgraded tool to connect with the PUD online. The new website is fully responsive to mobile devices, ADA compliant, and has many other design elements that make it easier for customers to navigate to important information. In addition, it has a one-click sign-in for MySnoPUD.

The PUD also completed significant upgrades to its phone system that resulted in an improved experience for the PUD's business and Spanish-speaking customers. A self-service menu was added to the phone system. Less than a month after the changes were implemented, 249 business customers utilized the self-service menu. In addition, customers are now offered self-service options in Spanish. Previously, Spanish was only available for customers reporting an outage. The PUD also continued to communicate customer tips and strategies on cold-weather conservation, storm preparation and how to avoid scammers.





*...continued stability*



The PUD continued its mission to deliver affordable power and water to customers in 2021 despite continuing challenges brought on by the COVID-19 pandemic. Continuous efforts by employees and management to control costs allowed the PUD's Board of Commissioners to avoid a retail rate increase for the fourth year in a row.

Sustained strong ratings from Moody's, Standard & Poor's and Fitch continue to help the PUD secure lower interest rates when selling bonds to raise capital for future projects. In 2021, the Electric System issued \$79 million of bonds at an average

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*Above, despite COVID-19 uncertainty, growth continues in the PUD service territory. At right, one of the social media ads directed to those negatively impacted by the pandemic.*



interest rate of 1.5%. The proceeds of the bond sale are being used for capital improvements in the electric system.

The Bonneville Power Administration, which provides the majority of power to PUD customers, raised its pass-through rates .64%. The PUD was required to pass through this rate increase to its customers. The original rate increase from BPA was significantly higher; however, the PUD's Rate Case team worked closely with BPA, resulting in \$5 million in savings for the PUD and its customers.

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, like 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, last year the PUD continued to help customers impacted by the COVID-19 pandemic through its Community Support Program and the suspension of late fees and disconnections to provide relief to those in dire financial need.

In December, the PUD's Board of Commissioners approved the 2022 budget for the electric, generation and water systems. The budget included a 2.1% general rate increase for 2022, the PUD's first since 2017. The PUD's electric system budget was \$670.3 million, an increase of approximately \$10 million from the year before.

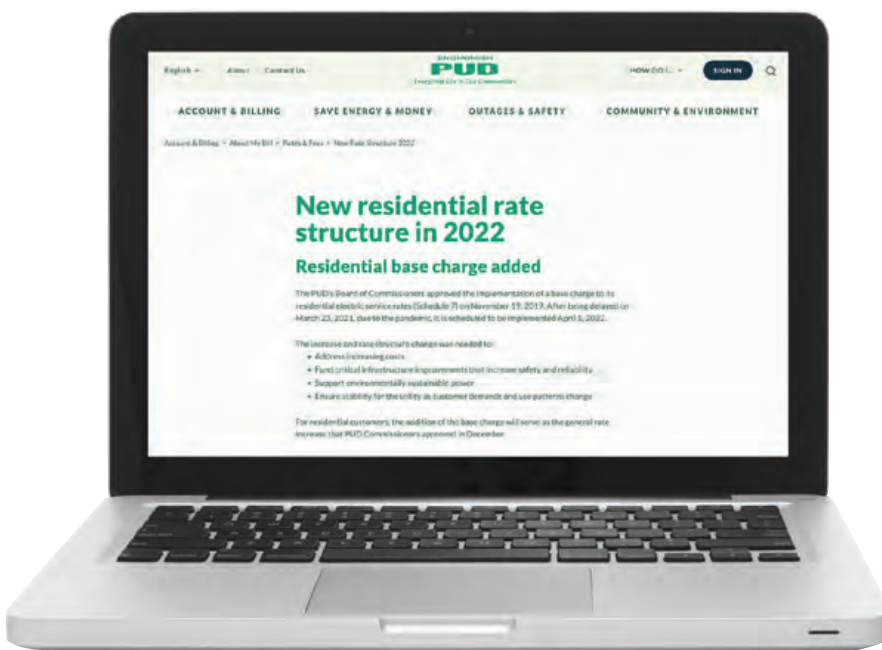
The PUD's current residential electric rate of 10.4 cents per kilo-



*In September, as supply chain issues began to surface, the District issued a Declaration of Emergency to ensure reliability through storm season. The declaration reduced lead times for the purchase of transmission and distribution materials and gave staff access to parallel supply chains.*

watt-hour (kWh) remains competitive with other Northwest electric utility rates and below the national average of 14.12 cents/kWh.

The PUD's electric and water customer base grew by over 5,700 and 600 customers, respectively, in 2021.



*After four years with no PUD rate changes, the Commission authorized an increase for 2022. Customers were notified early, through both print and digital media.*





## ...protect our resources

*The PUD strives to be an exceptional steward of natural resources. This includes maintaining land suitable for public enjoyment such as the Sultan Basin hiking trail shown above, as well as fish and wildlife habitat. Below, a stand of “snags,” dead trees that provide ideal homes for forest creatures.*



**T**he PUD continues to lead with a commitment to environmental sustainability, looking to protect the region's natural resources and wildlife without impacting the quality of service for our customers. The PUD's Environmental Affairs, Natural Resources, and Facilities teams are central to this goal, leading efforts to promote sustainable resources and practices.

In September, the PUD celebrated the 10-year anniversary of the FERC (Federal Energy Regulatory Commission) re-licensing of its Jackson Hydroelectric Project. Over that decade, the PUD has done significant work on the Sultan River in accordance with the license, including improving side channels, working to make the Diversion Dam passable for fish and creating a water temperature conditioning

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*In fall 2021, the PUD launched a second smolt trap in the upper reach of the Sultan River just beyond the diversion dam and began counting fish in that area for the first time.*

project that can help make the river more inhabitable for fish.

To encourage and enhance migratory fish access to additional spawning grounds, the PUD modified a natural landslide that was making things difficult and created fish passage at a small diversion dam that had blocked salmon migration for more than 80 years. Two weeks after the project was complete, Coho spawning nests were found five miles upstream from the dam.

The PUD team working on the Woods Creek Sustainability Center project was focused on planning efforts including investigating land-use regulations and permitting requirements. Design efforts will begin in 2022, with construction to follow. The team anticipates the project will be completed in 2025. Multiple volunteer events also occurred on the property throughout the year where PUD employees and their families performed planting, pruning and harvesting tasks to help create the food forest that will exist on the property. Volunteers were able to make their first donation of fruit and nuts harvested from the property to local food banks.



*Harvests from the Woods Creek Food Forest were donated to area food banks.*



*PUD volunteers and their families planting at the Woods Creek Food Forest.*





## ...flow into the future

**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.

After delaying some of its capital projects due to the pandemic in 2020, the water utility completed improvements to its Walker Hill Reservoir and an extension of a water main along Lake Stevens' new Festival Street in 2021. The water utility also continued a major push to complete the design, permitting and construction of improvements to the Warm Beach Water System.

Approved in 2021, the water utility will move forward on replacing approximately 23,000 water meters with advanced meters in coordination with the PUD's Connect Up program. The \$12.4 million project will be one of the largest single capital efforts in the history of the PUD's water utility.

The water utility neared completion of its Water System Plan, a multi-year effort that identifies critical improvements that the PUD must fund and complete in the next 20 years to maintain a high level of service to customers and provide system capacity necessary to support growth. The PUD also kicked off a Water Rate Study in

*Above, Water Construction Inspector Lee Ervin on the job. Below, congratulations to the PUD water utility on 75 years of service in 2021!*



2021 that will develop and recommend a reasonable and supportable plan regarding future rate revenue needs.

Despite obstacles put in place by the pandemic, water utility employees accomplished a lot in 2021. The PUD connected 513 new customers and performed all scheduled preventative maintenance of pump stations, wells, treatment plants and reservoirs. 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 2021.





## ...support our neighbors

**T**he PUD continued efforts to connect with customers and the community in innovative new ways while accommodating ever-changing COVID-19 restrictions.

To celebrate Earth Day, the PUD provided free pollinator kits to area students in partnership with several local organizations. The Everett Public Library System distributed 50 mason bee houses to the community, the Sno-Isle Library system distributed 30 butterfly feeders via its mobile library, and the Boys and Girls Club of Snohomish County received 50 hummingbird feeders for students who utilize their facility.

Each kit came with instructions, necessary materials and background information on why the particular pollinator is important to the ecosystem. The kits are

*Above, Public Education Programs Coordinator Heather Herbst distributed energy-education materials at the City of Everett's Holiday on the Bay Event. Below, an assembled pollinator kit with its corresponding materials.*



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*This jolly group volunteered to meet drive-up customers at the PUD Holiday Light Exchange.*

designed for students at a third- or fourth-grade level. In addition, the PUD's Public Education Program continued its shift to help teachers through remote learning. The program created virtual lessons on electrical safety, hydropower, renewable energy and more.

During the holiday season, the PUD helped customers save money and have a brighter holiday with two events in December that provided free stands of LED holiday lights. During the PUD's Holiday Light Exchange at the Evergreen State Fairgrounds, customers exchanged incandescent holiday lights or non-perishable food items for LED holiday lights at no charge. The PUD provided 1,000 strands of lights during the event and collected four pallets of food to donate to local food banks.

In addition, the PUD took its popular High-Voltage Demonstration Trailer to participate in the City of Everett's

Holiday on the Bay event. The trailer wowed local customers while the PUD was able to provide another 500 strands of LED lights to community members.

The PUD also worked to foster an inclusive community for its employ-

ees. In January, the PUD launched Third Thursdays with CEO/GM John Haarlow with the goal of creating an open forum for employees to not only hear from their general manager but be able to ask questions as well.



*The High-Voltage Demonstration Trailer dazzled – and educated – crowds at the August National Night Out event.*



# 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*





## *...continue a proud legacy*

**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 U.S. and the second largest in Washington state, serving over 367,000 electric customers and more than 22,000 water customers. The PUD is governed by three elected commissioners who represent separate districts within its service territory.

Stanwood Office

Arlington Office

**PUD Everett Headquarters**

Water Operations

Woods Creek Hydroelectric Project

Jackson Hydroelectric Project

Operations Center

Snohomish Office

Monroe Office

Youngs Creek Project

Lynnwood Office





# Independent Auditors' Report



## Report of Independent Auditors

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

### Report on the Audit of the Financial Statements

#### ***Opinion***

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, and the related combined and individual statements of revenues, expenses and changes in net position and cash flows of the Electric, Generation, and Water Systems, as of and for the year ended December 31, 2021, and the District's combined statements as of and for the year ended December 31, 2020, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the combined financial position of the District as of December 31, 2021 and 2020, and the individual financial positions of the Electric, Generation, and Water Systems as of December 31, 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audits.

### ***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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic 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. Such 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 4, 2022, 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 4, 2022



# 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, 2021 and 2020. 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

The PUD's combined net operating income for 2021 was \$73 million, a \$30 million increase from \$43 million in 2020. Combined net income increased from \$65 million in 2020 to \$93 million in 2021. This was a 43.1% increase. The increase in net income was primarily due to recording a \$43 million decrease in net pension expenses as required by *Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions*. GASB 68 requires participants in group funded plans to record their portion of assets or liabilities as Other Post-Employment Benefits (OPEB) on their financial statements. (See Footnote No. 7).

Combined net income decreased from \$82 million in 2019 to \$65 million in 2020. The 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.

The average number of Electric System customers increased from 361,076 in 2020 to 367,096 in 2021, resulting in a 1.7% increase in 2021 and 2020. New electric service connections were 5,934 in 2021, the highest recorded at the PUD, compared to 5,638 in 2020, and 4,339 in 2019. The increase in 2021 was primarily due to an increase in new connections in residential units. The average number of Water System customers increased 2.8% from 22,161 in 2020 to 22,774 in 2021, following a 2.4% increase from 2019 to 2020.

Retail MWh sales increased 2.2% from 6,452,632 MWh in 2020 to 6,593,771 MWh in 2021, compared to a 0.7% increase from 2019 to 2020. The increase was primarily caused by a 1.7% increase in residential MWh sales and a 2.6% increase in commercial and industrial MWh sales in 2021.

Combined retail sales were \$647 million in 2021, higher than the \$621 million in 2020 and \$627 million in 2019. This was primarily the result of an increase of \$26 million in residential and commercial retail energy sales. The decrease in 2020 as compared to 2019 is primarily due to a decrease of \$16 million in commercial and industrial energy sales which was offset by an increase of \$12 million in residential energy sales. There were no Electric or Water System rate increases in the last three years.

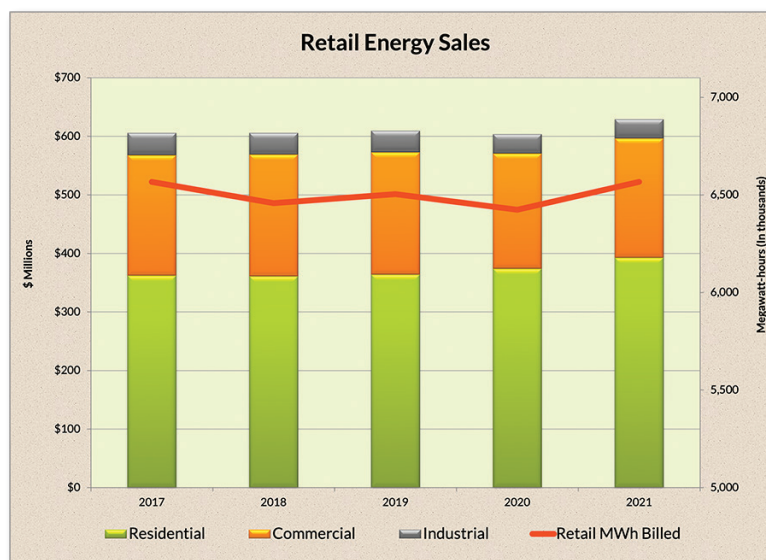


Figure 1

The PUD sells surplus power into the wholesale power markets to balance resources with customer loads. Combined wholesale revenue was \$43 million in 2021 compared to \$39 million in 2020 and \$30 million in 2019. The volume of excess power available to be sold in the wholesale market decreased 27% in 2021. This caused wholesale prices to increase, which contributed to the PUD's \$4 million increase in wholesale revenue from 2020. The Electric System sold \$11 million of excess transmission capacity in 2021 and \$13 million in 2020. Combined other operating revenue was consistent between 2021 and 2020 at \$33 million.



Combined operating expenses were \$650 million in 2021. These expenses include \$311 million in combined purchased power costs, an increase of \$22 million from the prior year. This increase was driven by extreme heat in June 2021 and cold weather in December 2021. In total, combined operating expenses declined from \$222 million in 2020 to \$194 million in 2021, driven primarily by the \$43 million decrease in expenses related to the PUD's net pension obligation. This decrease was partially offset by increases in bad debt and other costs associated with the COVID-19 Community Support Program. Combined maintenance costs were \$12 million higher in 2021 due to several storms throughout the year.

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 increase in 2020 was driven primarily by a \$29 million increase in operation and maintenance costs. This was partially offset by a \$24 million decrease in purchased power in 2020.

Combined 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, the PUD service area experienced several powerful storms, causing over \$2 million in restoration costs.

During 2021, the PUD's income from investing activities decreased to \$4.2 million as compared to \$7.7 million in 2020, consistent with the financial market indices. This was a 45.0% decrease compared to a 36.0% increase in 2020. 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 remained unchanged at \$34 million in 2021 when compared to 2020 and decreased \$7 million in 2020 from \$42 million in 2019, 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.

## 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. The PUD did not implement a general rate increase from 2018 to 2021.

#### *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 80% of the energy resources used by the PUD to serve its customers. Power purchases from BPA were \$236 million in 2021 and \$230 million in 2020, respectively. As a response to provide relief due to COVID-19, BPA suspended its financial reserves surcharge through September 2021.

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 0.54% to match the higher costs effective October 1, 2021.

### 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 \$110 million in 2021 and \$130 million in 2020.



Key projects in 2021 included completion of the new Twin City substation. This project serves new or growing customer loads in the Stanwood area of north Snohomish County. Other significant work included transformer replacements completed at the North Marysville and Paine Field substations, the replacement of aging equipment at nine additional substations, and system reliability upgrades at eight other substations. Facility relocations and new services were completed in support of the Sound Transit Lynnwood Link Light Rail extension, as well as preliminary work in coordination of the Everett Link extension. The PUD continued its ongoing replacement of aging poles. In 2021, approximately 528 distribution poles, 54 transmission poles, and 26.6 miles of underground distribution cables were replaced.

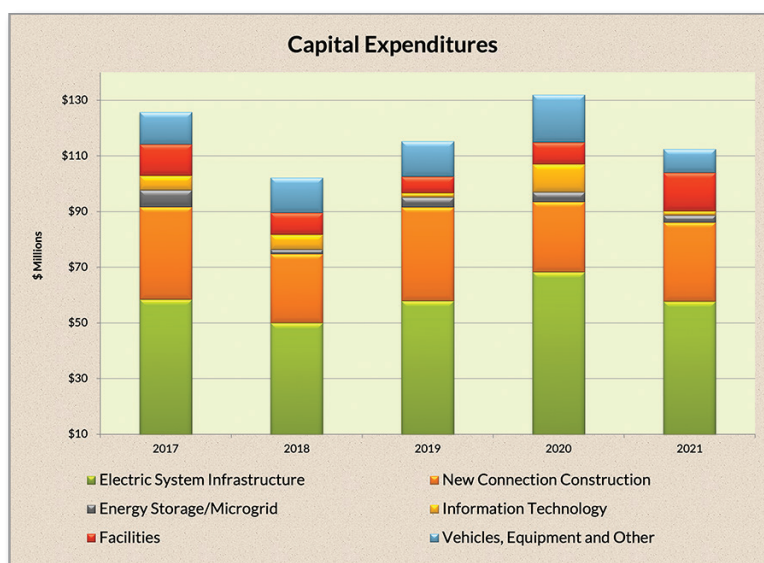


Figure 2

## Capital Funding and Debt Levels

The PUD utilizes a combination of revenues, cash reserves, grants, 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.

In June 2021, the Electric System issued \$79 million of Series 2021A Revenue bonds, the first sale of new money tax-exempt bonds since 2015. The new bonds, which have a final maturity of 2051, were sold at an average interest rate of 1.5% as the PUD benefitted from a historically low long-term interest rate environment and strong bond ratings. The bond proceeds of the bond sale are currently being used to fund qualifying additions, replacements, and improvements to the Electric System, including construction and upgrades relating to the electric distribution system, the Connect Up smart meter project, and development of the PUD's North County community office.

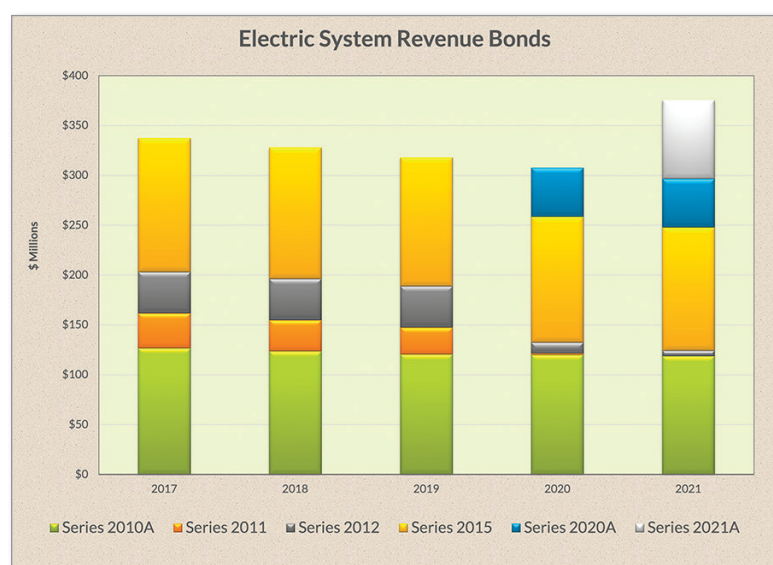


Figure 3

In conjunction with the bond sale, Fitch and Moody's, two major bond rating agencies, affirmed the PUD's bond ratings. Fitch Rating rated the PUD AA-, while Moody's provided a favorable Aa2 rating.

In October 2020, 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 \$5.5 million of net present value savings and will lower annual debt service costs by an average of \$1.2 million per year from 2021 to 2028.

Long-term debt for the Electric System, including current maturities, totaled \$375 million as of December 31, 2021, compared to \$308 million in 2020 and \$318 million in 2019.



## Modular Energy Storage Architecture 2 (MESA 2) Project Disposition

The PUD has two different Modular Energy Storage Architecture (MESA) battery energy storage systems that were classified as experimental projects. MESA 1 utilizes a lithium-ion battery technology, while MESA 2 uses a vanadium electrolyte technology in a flow battery system. 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 systems were considered an emerging technology and not widely available. The MESA 2 project at the Everett substation was installed in 2016, and the flow battery containers were filled with vanadium electrolyte. After commissioning and testing began in 2017, several leak incidents were noted and reported. In August 2018, a spill occurred which had greater impact and required significant effort to mitigate, causing the PUD to discontinue the MESA 2 operation. The MESA 2 system was not viable for long-term reliability.

Due to 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 a \$2.0 million asset write-off in the 2021 financial statements and an \$8.5 million asset write-off in the 2020 financial statements. 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 previously received.

## Connect Up Project

In 2020, the PUD's Board of Commissioners approved the utility's Connect Up program. This infrastructure and technology project includes installation of new meters capable of two-way communication. The project's installation process is scheduled to take two years as every PUD customer is slated to receive a new meter. The initial network will consist of 140 base stations dispersed throughout the service territory on existing or new poles or towers. Upon completion of the project the PUD will have deployed more than 350,000 new electric meters and 22,000 water meters.

Benefits for the Electric System include improved system visibility, improved outage responses, and improved system efficiency. The PUD's Water System customers will be able to identify leaks, track hourly and daily consumption, and better manage water usage more easily.

The total project costs are currently estimated at \$93 million and will be primarily funded by bond proceeds. As of December 31, 2021, the PUD has expended \$6.8 million on this project.

## Arlington Microgrid

In 2021 the PUD completed construction of the Arlington Microgrid project. The project consists of a community solar array of 8,100 panels, a 1 MW/1.4 MWh lithium-ion battery energy storage system, and a pair of Vehicle-to-Grid (V2G) bi-directional chargers, and the Clean Energy Technology Center and Modular Data Center, which will support the larger microgrid project. This will allow the PUD to study and demonstrate the effectiveness of battery energy storage, solar power, and vehicle-to-grid charging technology.

Completed construction costs were \$12 million, \$3 million below initial estimates. The PUD received a Clean Energy Fund Grant of \$3.5 million to help fund the project.

Approximately 500 PUD customers purchased rights to the 8,100 solar panel units to receive rebates from the Washington State Renewable Energy System Incentive program. The incentive is based on electricity generated by the solar array. During the first year of the program, the community solar array produced 613,280 kWh.



## GENERATION SYSTEM

### Lower Generation System Debt Levels

In October 2020, 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 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 \$68 million as of December 31, 2021, compared to \$73 million in 2020, and \$81 million in 2019.

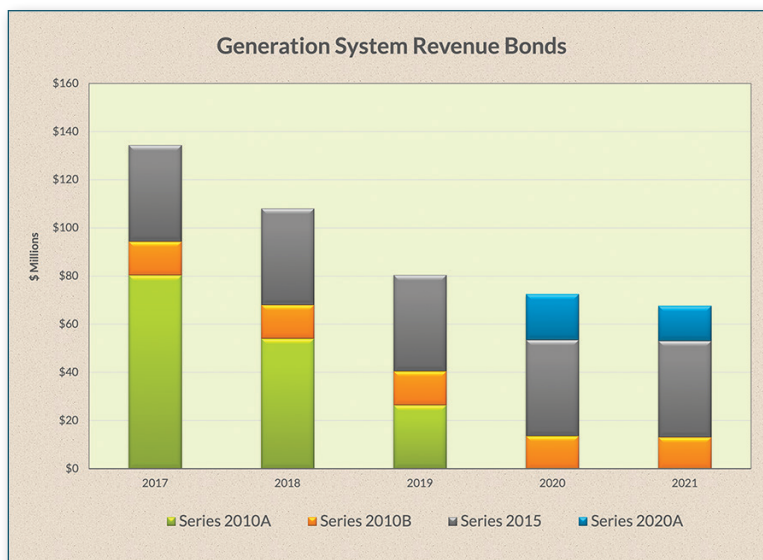


Figure 4

### Generation System Wholesale Sales Revenue

The Generation System wholesale sales revenue remained stable in 2021 at \$23.7 million as compared to \$23.1 million in 2020. Wholesale sales decreased \$13.4 million in 2020 from \$36.5 million in 2019. 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.

## WATER SYSTEM

### Water System Operating Results

Retail sales revenue for the Water System increased to \$13.9 million in 2021 from \$13.1 million in 2020, following an increase from \$12.7 million in 2019. The revenue increases in all three years were due to an increased customer base. The Water System has not had an overall retail rate increase since January 2018.

Operating expenses increased slightly from \$12.6 million in 2020 to \$12.7 million in 2021, following an increase of \$1.0 million in 2019. The 2021 increase was primarily due to higher purchased water of \$0.3 million, and lower operations and maintenance costs of \$0.3 million.

Water System capital contributions were \$6.1 million in 2021, slightly lower than the \$6.4 million in 2020 and \$2.3 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.

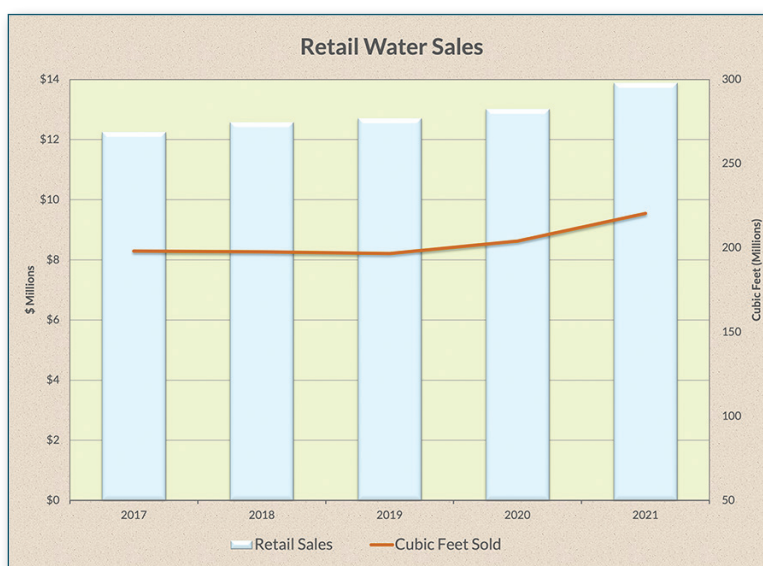


Figure 5



## Capital Funding and 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.

Strong operating results over the past several years have provided adequate cash for the funding of capital projects in the short-term. In 2021, the Water System initiated a draw of \$3.1 million from the Drinking Water State Revolving Fund in support of on-going capital improvements of the Warm Beach Water Association project. Long-term debt for the Water System, including current maturities, totaled \$13.2 million as of December 31, 2021, compared to \$11.6 million as of December 31, 2020.

## Warm Beach Water Association Transfer

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

Improvements to the Association's system will be funded by a combination of \$6.3 million of federal and state grants and loans through the Drinking Water State Revolving Fund, \$0.8 million contributed by the Association, and approximately \$1.2 million from the PUD's Water System operating reserve. Customers of the PUD's Warm Beach water system will pay a capital improvement surcharge to reimburse the operating reserve. Due to COVID-19 pandemic, many Warm Beach improvement projects were on hold in 2020 with construction resuming in 2021.

The PUD initiated a drawdown of \$3.1 million and \$0.3 million from the Drinking Water State Revolving Fund in 2021 and 2020, respectively.

In January 2021, the PUD's Water Utility celebrated its 75<sup>th</sup> anniversary. It now serves over 23,000 customers around Snohomish County.

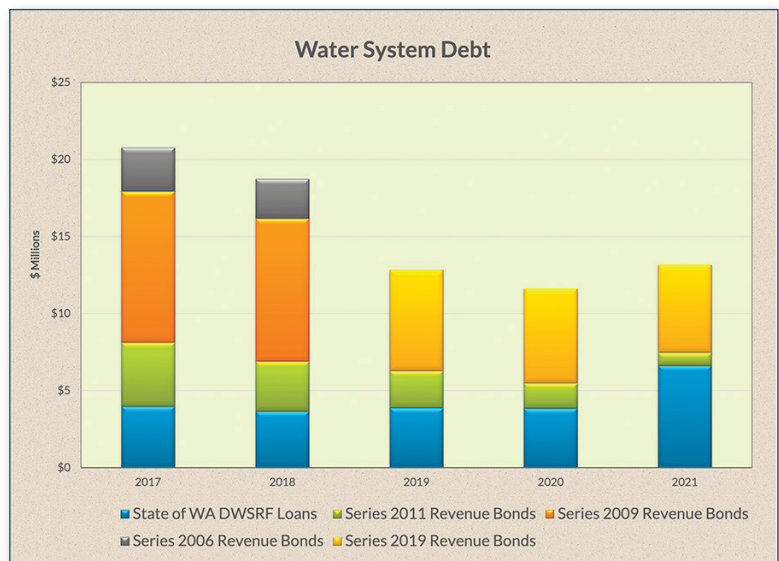


Figure 6



# 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)

	2021	2020	2019
Current Assets, Investments, and Special Funds	\$ 677	\$ 585	\$ 589
Net Utility Plant	1,686	1,638	1,608
Other Assets	140	20	19
<i>Total Assets</i>	<u>2,503</u>	<u>2,243</u>	<u>2,216</u>
Deferred Outflows of Resources	25	25	20
Current Liabilities	127	119	117
Long-Term Debt	485	400	430
Other Liabilities	94	127	124
<i>Total Liabilities</i>	<u>706</u>	<u>646</u>	<u>671</u>
Deferred Inflows of Resources	137	30	38
Net Investment in Capital Assets	1,271	1,226	1,168
Restricted	295	174	173
Unrestricted	119	192	186
<b>Net Position</b>	<u><b>\$ 1,685</b></u>	<u><b>\$ 1,592</b></u>	<u><b>\$ 1,527</b></u>
Operating Revenues	\$ 723	\$ 693	\$ 685
Operating Expenses	650	650	643
<i>Net Operating Income</i>	<u>73</u>	<u>43</u>	<u>42</u>
Interest Charges	(16)	(19)	(23)
Other Income and Expense	2	6	21
<i>Net Income (Loss) before Capital Contributions</i>	<u>59</u>	<u>30</u>	<u>40</u>
Capital Contributions	34	35	42
<b>Net Income</b>	<u><b>93</b></u>	<u><b>65</b></u>	<u><b>82</b></u>
Net Position – beginning of year	1,592	1,527	1,445
<b>Net Position</b>	<u><b>\$ 1,685</b></u>	<u><b>\$ 1,592</b></u>	<u><b>\$ 1,527</b></u>

## Assets

Current assets, investments, and special funds increased \$92 million in 2021 and decreased \$4 million in 2020 as a result of a construction bond issuance in June 2021 and planned utilization of reserve funds in 2020.

The PUD had between \$1.6 billion and \$1.7 billion invested in a broad range of net utility capital assets as of December 31, 2021, 2020, and 2019. 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 \$120 million in 2021 and \$137 million in 2020, 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 \$14 million and \$92 million due to routine retirements in 2021 and 2020, respectively. Accumulated depreciation increased \$58 million and \$16 million related to routine plant asset activity in 2021 and 2020, respectively.

Other assets increased \$120 million in 2021 and \$1 million in 2020 due primarily to the recording of a net pension asset as well as a grant receivable from the Federal Emergency Management Administration (FEMA) related to restoration work associated with declared major storm events in January 2021 and January 2020.

## Deferred Outflows of Resources

Deferred outflows of resources were \$25 million in 2021. This resulted from a \$1 million decrease in Unamortized Losses on Debt and increases of \$2 million in the OPEB and net pension liability deferrals in 2021.

Deferred outflows of resources increased \$5 million in 2020. Changes to the net pension liability increased deferred outflows of resources by \$6 million in 2020.

## Liabilities

Current liabilities increased \$8 million in 2021 resulting from higher vendor payable balances, an increase in the current portion of long-term debt principal payments, and a decrease in customer deposits. 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.

Long-term debt increased \$85 million in 2021 and decreased \$30 million in 2020 as a result of an Electric System revenue bond issuance in 2021, scheduled principal repayments, and refunding of Electric and Generation System bonds in 2020.

Other liabilities decreased \$33 million in 2021 and increased \$3 million in 2020 primarily due to actuarial valuation changes in post-employment liabilities.

## Deferred Inflows of Resources

Deferred inflows increased \$107 million in 2021 and decreased \$8 million in 2020 as the result of changes in the valuation of the net pension plan deferrals.

## Net Position

Net investment in capital assets increased \$45 million and \$58 million in 2021 and 2020, respectively, reflecting the growth in net utility plant. The PUD added 5,934 and 5,638 Electric System customer connections in 2021 and 2020, respectively. The Water System added 519 and 579 customer connections in 2021 and 2020, 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 \$121 million due to the recording of the net pension asset. Restricted net position increased \$1 million in 2020.

Unrestricted net position is available to finance day-to-day operations without constraints established by covenants, legal requirements, or board resolutions. Unrestricted net position decreased \$73 million in 2021 and increased \$6 million in 2020 due to the change in recognition of post-employment liabilities and lower cash reserves.



## Operating Revenues

Operating revenues increased \$723 million in 2021, from \$693 million in 2020. Retail revenues increased \$26 million in 2021 due to increases in both billed and unbilled residential and commercial revenues. Wholesale revenues increased \$4 million due to an overall increase in power available for sale in the wholesale market.

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 Expenses

Operating expenses were comparable in both 2021 and 2020. The PUD recorded a \$43 million reduction in the net pension liability while other costs increased by a similar amount. During 2021, purchased power costs increased by \$21 million as a result of significant weather events that led to higher market power prices. Operating and maintenance costs increased due to changes in supply chain costs, as well as \$12 million attributed to repairs resulting from significant weather events and emergency work.

Operating expenses increased \$7 million in 2020 to \$650 million from \$643 million in 2019. 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.

## Interest Charges

Interest charges decreased \$3 million from 2020 to 2021 and \$4 million from 2019 to 2020 as a result of declining debt levels.

## Other Income and Expense

Other income and expense decreased \$4 million in 2021 due to a decrease of \$11 million in interest income reflecting unfavorable market conditions. This was offset by an increase of \$6 million in other deductions as a result of the final decommissioning of the MESA 2 battery energy storage system assets.

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.

## Capital Contributions

Capital contributions decreased \$1 million in 2021 and \$7 million in 2020. 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 decreases in 2021 and 2020 reflect decreased property development activity due to the COVID-19 pandemic.

## 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.

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## Combined Statements of Net Position

December 31, 2021 and 2020

(In thousands)

	2021				2020
	Electric System	Generation System	Water System	Combined	Combined
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and temporary investments:					
Cash and cash equivalents	\$ 40,306	\$ 7,126	\$ 1,862	\$ 49,294	\$ 71,338
Temporary investments	72,171	3,011	3,757	78,939	75,929
<b>Total Cash and Temporary Investments</b>	<b>112,477</b>	<b>10,137</b>	<b>5,619</b>	<b>128,233</b>	<b>147,267</b>
Accounts and other receivables, net	108,395	187	2,015	110,597	95,248
Intersystem loans receivable	3,488	–	–	–	–
Materials and supplies	33,121	–	366	33,487	28,712
Prepayments and other	6,442	270	158	6,870	9,888
<b>Total Current Assets</b>	<b>263,923</b>	<b>10,594</b>	<b>8,158</b>	<b>279,187</b>	<b>281,115</b>
<b>Long-Term Investments &amp; Special Funds:</b>					
Long-term investments	92,277	2,496	2,736	97,509	93,214
Special funds – bond funds and other	267,921	13,407	19,152	300,480	210,646
<b>Total Long-Term Investments &amp; Special Funds</b>	<b>360,198</b>	<b>15,903</b>	<b>21,888</b>	<b>397,989</b>	<b>303,860</b>
<b>Utility Plant:</b>					
Plant in service	2,066,276	350,748	170,915	2,587,939	2,508,359
Construction work in progress	124,606	5,123	4,560	134,289	107,707
Total utility plant	2,190,882	355,871	175,475	2,722,228	2,616,066
Accumulated depreciation	(834,374)	(157,303)	(44,257)	(1,035,934)	(978,438)
<b>Net Utility Plant</b>	<b>1,356,508</b>	<b>198,568</b>	<b>131,218</b>	<b>1,686,294</b>	<b>1,637,628</b>
<b>Other Assets:</b>					
Conservation loans and other receivables, net	8,800	–	309	9,109	5,165
Intersystem loans and receivables	30,973	–	–	–	–
FERC licenses	–	14,511	–	14,511	15,051
Net pension assets	110,623	2,967	3,056	116,646	–
Other assets	28	111	–	139	493
<b>Total Other Assets</b>	<b>150,424</b>	<b>17,589</b>	<b>3,365</b>	<b>140,405</b>	<b>20,709</b>
<b>Total Assets</b>	<b>2,131,053</b>	<b>242,654</b>	<b>164,629</b>	<b>2,503,875</b>	<b>2,243,312</b>
<b>Deferred Outflows of Resources</b>					
Unamortized loss on refunding debt	1,118	2,916	52	4,086	5,385
Net pension and OPEB deferrals	19,871	526	517	20,914	19,453
<b>Total Deferred Outflows of Resources</b>	<b>20,989</b>	<b>3,442</b>	<b>569</b>	<b>25,000</b>	<b>24,838</b>
<b>Total Assets and Deferred Outflows</b>	<b>\$2,152,041</b>	<b>\$ 246,096</b>	<b>\$ 165,198</b>	<b>\$2,528,874</b>	<b>\$2,268,150</b>

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

## Combined Statements of Net Position

December 31, 2021 and 2020

(In thousands)

	2021				2020
	Electric System	Generation System	Water System	Combined	Combined
<b>Liabilities</b>					
<b>Current Liabilities:</b>					
Accounts payable	\$ 55,230	\$ 779	\$ 436	\$ 56,445	\$ 48,930
Accrued taxes	17,577	107	107	17,791	18,248
Accrued interest	1,460	289	41	1,790	1,605
Other accrued liabilities	29,542	2	7	29,551	28,504
Customer deposits	3,352	—	8	3,360	4,165
Current maturities of long-term debt	11,510	5,120	1,806	18,436	17,551
Intersystem loans payable	—	3,488	—	—	—
<b>Total Current Liabilities</b>	<b>118,671</b>	<b>9,785</b>	<b>2,405</b>	<b>127,373</b>	<b>119,003</b>
<b>Long-Term Debt:</b>					
Revenue bonds	403,283	68,515	6,548	478,346	395,971
Other notes payable	—	—	6,127	6,127	3,495
<b>Total Long-Term Debt</b>	<b>403,283</b>	<b>68,515</b>	<b>12,675</b>	<b>484,473</b>	<b>399,466</b>
<b>Other Liabilities:</b>					
Intersystem loans and payables	—	30,973	—	—	—
FERC license obligations	—	14,511	—	14,511	15,051
Net pension liability	10,759	244	282	11,285	43,767
Other liabilities	65,779	1,233	1,413	68,425	68,345
<b>Total Other Liabilities</b>	<b>76,538</b>	<b>46,961</b>	<b>1,695</b>	<b>94,221</b>	<b>127,163</b>
<b>Total Liabilities</b>	<b>598,492</b>	<b>125,261</b>	<b>16,775</b>	<b>706,067</b>	<b>645,632</b>
<b>Deferred Inflows of Resources</b>					
Unearned FERC license contributions	—	4,500	—	4,500	5,000
Net pension deferrals	115,596	3,052	3,164	121,812	14,302
Other deferred inflows	6,606	4,251	162	11,019	10,756
<b>Total Deferred Inflows of Resources</b>	<b>122,202</b>	<b>11,803</b>	<b>3,326</b>	<b>137,331</b>	<b>30,058</b>
<b>Net Position</b>					
Net investment in capital assets	1,026,565	127,849	116,788	1,271,202	1,225,996
Restricted:					
Reserve funds	649	6,710	813	8,172	8,698
Rate stabilization	116,353	—	1,543	117,896	119,364
Net pension assets	19,454	560	542	20,556	—
Debt service and other	28,955	6,409	16,748	52,112	46,247
Unrestricted	239,371	(32,496)	8,663	215,538	192,155
<b>Total Net Position</b>	<b>1,431,347</b>	<b>109,032</b>	<b>145,097</b>	<b>1,685,476</b>	<b>1,592,460</b>
<b>Total Liabilities, Deferred Inflows and Net Position</b>	<b>\$2,152,041</b>	<b>\$ 246,096</b>	<b>\$ 165,198</b>	<b>\$2,528,874</b>	<b>\$2,268,150</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, 2021 and 2020

(In thousands)

	2021				2020
	Electric System	Generation System	Water System	Combined	Combined
<b>Operating Revenues:</b>					
Retail sales	\$ 633,113	\$ –	\$ 13,896	\$ 647,009	\$ 620,748
Wholesale sales	42,692	23,734	731	43,423	39,470
Other	32,334	282	362	32,978	32,726
<b>Total Operating Revenues</b>	<b>708,139</b>	<b>24,016</b>	<b>14,989</b>	<b>723,410</b>	<b>692,944</b>
<b>Operating Expenses:</b>					
Purchased power	334,427	–	–	310,693	289,075
Purchased water	–	–	3,217	3,217	2,925
Operations	186,312	4,316	3,692	194,320	222,216
Maintenance	29,324	2,441	1,755	33,520	30,232
Depreciation	58,988	5,806	3,269	68,063	66,192
Taxes	39,534	107	784	40,424	39,403
<b>Total Operating Expenses</b>	<b>648,585</b>	<b>12,670</b>	<b>12,717</b>	<b>650,238</b>	<b>650,043</b>
<b>Net Operating Income</b>	<b>59,554</b>	<b>11,346</b>	<b>2,272</b>	<b>73,172</b>	<b>42,901</b>
<b>Interest Charges:</b>					
Interest	16,045	5,144	424	20,156	20,505
Amortization of debt related costs	(2,115)	(1,211)	(158)	(3,484)	(1,331)
<b>Total Interest Charges</b>	<b>13,930</b>	<b>3,933</b>	<b>266</b>	<b>16,672</b>	<b>19,174</b>
<b>Other Income and Expense:</b>					
Interest income	558	25	34	(840)	10,261
Other income and expense, net	3,095	251	(27)	3,319	(3,873)
<b>Total Other Income and Expense</b>	<b>3,653</b>	<b>276</b>	<b>7</b>	<b>2,479</b>	<b>6,388</b>
<b>Net Income Before Capital Contributions</b>	<b>49,277</b>	<b>7,689</b>	<b>2,013</b>	<b>58,979</b>	<b>30,115</b>
<b>Capital Contributions</b>	<b>27,800</b>	<b>99</b>	<b>6,138</b>	<b>34,037</b>	<b>34,907</b>
<b>Net Income</b>	<b>77,077</b>	<b>7,788</b>	<b>8,151</b>	<b>93,016</b>	<b>65,022</b>
Net Position, Beginning of year	1,354,270	101,244	136,946	1,592,460	1,527,438
<b>Net Position, End of year</b>	<b>\$ 1,431,347</b>	<b>\$ 109,032</b>	<b>\$ 145,097</b>	<b>\$ 1,685,476</b>	<b>\$ 1,592,460</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, 2021 and 2020

(In thousands)

	2021				2020
	Electric System	Generation System	Water System	Combined	Combined
<b>Cash Flows From Operating Activities:</b>					
Cash received from customers	\$ 653,517	\$ 24,143	\$ 14,548	\$ 668,474	\$ 648,105
Cash payments to suppliers	(485,309)	(2,567)	(5,694)	(469,836)	(462,344)
Cash payments to employees	(97,466)	(4,897)	(4,051)	(106,414)	(101,906)
Cash payments for taxes	(35,959)	(121)	(796)	(36,876)	(39,023)
Other cash received (paid)	28,020	(611)	111	27,520	34,794
<b>Net Cash Provided by Operating Activities</b>	<b>62,803</b>	<b>15,947</b>	<b>4,118</b>	<b>82,868</b>	<b>79,626</b>
<b>Cash Flows From Capital &amp; Related Financing Activities:</b>					
Capital construction	(97,581)	(3,952)	(6,106)	(107,639)	(87,957)
Proceeds from debt	104,606	—	3,139	107,745	71,558
Repayment of debt	(11,085)	(4,890)	(1,576)	(17,551)	(88,674)
Advance refunding costs	—	—	—	—	(3,984)
Debt issuance costs	(615)	—	—	(615)	(705)
Interest paid on debt	(15,837)	(5,165)	(426)	(19,971)	(20,796)
Capital contributions	23,470	99	3,425	26,994	26,569
Intercompany loans	3,451	(3,451)	—	—	—
<b>Net Cash Provided by (Used for) Capital &amp; Related Financing Activities</b>	<b>6,409</b>	<b>(17,359)</b>	<b>(1,544)</b>	<b>(11,037)</b>	<b>(103,989)</b>
<b>Cash Flows From Investing Activities:</b>					
Sale of special funds and investment securities	247,287	25,489	15,897	288,673	211,975
Purchase of special funds and investment securities	(347,754)	(24,673)	(18,431)	(390,858)	(172,448)
Interest on investment securities	8,020	410	128	7,101	10,560
<b>Net Cash Provided by (Used for) Investing Activities</b>	<b>(92,447)</b>	<b>1,226</b>	<b>(2,406)</b>	<b>(95,084)</b>	<b>50,087</b>
<b>Cash Flows From Non-Capital Financing Activities:</b>					
Non-capital grants received	1,209	—	—	1,209	—
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<b>1,209</b>	<b>—</b>	<b>—</b>	<b>1,209</b>	<b>—</b>
<b>Net Increase (Decrease) in Cash &amp; Cash Equivalents</b>	<b>(22,026)</b>	<b>(186)</b>	<b>168</b>	<b>(22,044)</b>	<b>25,724</b>
Beginning of Year	62,332	7,312	1,694	71,338	45,614
<b>Cash &amp; Cash Equivalents – End of Year</b>	<b>\$ 40,306</b>	<b>\$ 7,126</b>	<b>\$ 1,862</b>	<b>\$ 49,294</b>	<b>\$ 71,338</b>

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

## Combined Statements of Cash Flows (continued)

Years ended December 31, 2021 and 2020

(In thousands)

	2021				2020
	Electric System	Generation System	Water System	Combined	Combined
<b>Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:</b>					
Net Operating Income	\$ 59,554	\$ 11,346	\$ 2,272	\$ 73,172	\$ 42,901
Adjustments to net operating income:					
Depreciation	58,988	5,806	3,269	68,063	66,192
Pension and OPEB Related	(43,959)	(1,186)	(1,202)	(46,347)	(17,094)
Other cash received (paid)	(2,844)	–	(28)	(2,872)	(8,906)
(Increase) decrease in receivables	(16,786)	126	(229)	(16,889)	(6,846)
(Increase) decrease in other assets	(1,951)	(80)	(22)	(2,053)	(633)
Increase (decrease) in payables	7,047	417	52	7,516	(1,575)
Increase (decrease) in other liabilities	2,753	(482)	7	2,278	5,587
<b>Total Adjustments</b>	<b>3,248</b>	<b>4,601</b>	<b>1,847</b>	<b>9,696</b>	<b>36,725</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 62,803</b>	<b>\$ 15,947</b>	<b>\$ 4,118</b>	<b>\$ 82,868</b>	<b>\$ 79,626</b>
<b>Non-cash Investing, Capital and Related Financing Activities:</b>					
Non-cash contributions	\$ 6,376	\$ –	\$ 2,713	\$ 9,089	\$ 7,523
Changes in valuation of financial instruments	(4,857)	(103)	(86)	(5,046)	2,561
Amortization of debt-related costs	2,115	1,211	158	3,484	1,331

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



# Notes to Combined Financial Statements

December 31, 2021 and 2020

## 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 2021 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 \$40.5 million and \$32.1 million as of December 31, 2021, and 2020, respectively. Unbilled water revenue was \$607 thousand and \$582 thousand as of December 31, 2021, and 2020, 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 \$14.1 million and \$7.8 million as of December 31, 2021 and 2020, respectively.

### Material and Supplies

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

### Special Funds

Special funds are restricted or limited-use funds that have been established in accordance with Commission resolutions, bond resolutions, state law or other agreements. These funds, which consist of cash, cash equivalents, and investments, are restricted for specific purposes, including debt service, bond reserves, rate stabilization, qualifying capital expenditures, postemployment benefits, FERC license commitments, and other reserve requirements. 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 five 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 \$16.9 million and \$16.3 million at December 31, 2021 and 2020, respectively. These liabilities are presented as part of Other Accrued Liabilities.



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

	2019	2020			2021		
	Ending Balance	Additions	Retirements & Transfers	Ending Balance	Additions	Retirements & Transfers	Ending Balance
<b>Electric System</b>							
Transmission	\$ 163,415	\$ 20,383	\$ (1,092)	\$ 182,706	\$ 4,395	\$ (802)	\$ 186,299
Distribution	1,264,985	84,273	(31,861)	1,317,397	72,529	(8,698)	1,381,228
General Plant & Other	421,417	21,779	(25,229)	417,967	8,972	(3,644)	423,295
Land & Non-Depreciable Assets	71,599	3,467	(260)	74,806	649	(1)	75,454
Plant in Service	1,921,416	129,902	(58,442)	1,992,876	86,545	(13,145)	2,066,276
Construction Work in Progress	134,504	–	(31,327)	103,177	21,430	–	124,607
Utility Plant	2,055,920	129,902	(89,769)	2,096,053	107,975	(13,145)	2,190,883
Less Accumulated Depreciation	(776,851)	(21,617)	13,954	(784,514)	(56,383)	6,523	(834,374)
<b>Net Utility Plant</b>	<b>\$1,279,069</b>	<b>\$ 108,285</b>	<b>\$ (75,815)</b>	<b>\$ 1,311,539</b>	<b>\$ 51,592</b>	<b>\$ (6,622)</b>	<b>\$1,356,509</b>
<b>Generation System</b>							
Generation/Production	\$ 294,595	\$ 550	\$ (120)	\$ 295,025	\$ 1,413	\$ (331)	\$ 296,107
Transmission	2,811	–	–	2,811	–	–	2,811
Distribution	6,416	404	–	6,820	15	–	6,835
General Plant & Other	29,806	581	–	30,387	786	–	31,173
Land & Non-Depreciable Assets	13,822	–	–	13,822	–	–	13,822
Plant in Service	347,450	1,535	(120)	348,865	2,214	(331)	350,748
Construction Work in Progress	2,670	–	630	3,300	1,823	–	5,123
Utility Plant	350,120	1,535	510	352,165	4,037	(331)	355,871
Less Accumulated Depreciation	(145,985)	(5,843)	86	(151,742)	(5,600)	39	(157,303)
<b>Net Utility Plant</b>	<b>\$ 204,135</b>	<b>\$ (4,308)</b>	<b>\$ 596</b>	<b>\$ 200,423</b>	<b>\$ (1,563)</b>	<b>\$ (292)</b>	<b>\$ 198,568</b>
<b>Water System</b>							
Generation/Production	\$ 9,356	\$ –	\$ –	\$ 9,356	\$ 45	\$ (4)	\$ 9,397
Transmission & Distribution	133,455	5,929	(383)	139,001	4,550	(398)	143,153
General Plant & Other	14,096	111	–	14,207	–	–	14,207
Land & Non-Depreciable Assets	4,054	–	–	4,054	104	–	4,158
Plant in Service	160,961	6,040	(383)	166,618	4,699	(402)	170,915
Construction Work in Progress	3,481	–	(2,251)	1,230	3,330	–	4,560
Utility Plant	164,442	6,040	(2,634)	167,848	8,029	(402)	175,475
Less Accumulated Depreciation	(39,306)	(2,958)	82	(42,182)	(3,239)	1,164	(44,257)
<b>Net Utility Plant</b>	<b>\$ 125,136</b>	<b>\$ 3,082</b>	<b>\$ (2,552)</b>	<b>\$ 125,666</b>	<b>\$ 4,790</b>	<b>\$ 762</b>	<b>\$ 131,218</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.

## 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 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 District 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 are included 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 District 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 2020 financial statements to conform to the 2021 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, 2021 and 2020 are summarized in Table 2.



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

	Electric System		Generation System		Water System	
	2021	2020	2021	2020	2021	2020
U.S. Treasury Securities	53%	43%				
U.S. Agency Obligations						
Federal Home Loan Bank	12%	14%	—	6%	4%	4%
Federal Farm Credit Bank	7%	10%	—	2%	17%	12%
Federal National Mortgage Association	5%	8%	—	3%	2%	23%
Federal Home Loan Mortgage Corporation	6%	2%	—	—	—	—
Private Export Funding Corporation	1%	1%	—	—	—	—
Cash and Interest-bearing Demand or Time Deposits	3%	6%	—	—	1%	2%
Washington State Local Government Investment Pool	13%	16%	56%	53%	26%	24%

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, 2021, LGIP investments include primarily U.S. Agency Securities, U.S. Treasury Securities, Repurchase Agreements, and Interest-Bearing Bank Deposits. Assets held in the 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, with the weighted average duration of the invested portfolio remaining below three years. 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:

	2021		2020	
Term	Amount Invested (in thousands)	Percent of Invested Fund	Amount Invested (in thousands)	Percent of Invested Fund
Less than 30 days	\$ 88,520	17%	\$85,015	19%
30 to 90 days	35,555	7%	34,116	8%
90 days to 1 year	155,510	29%	91,416	20%
1 year to 5 years	221,938	42%	219,816	48%
Bond reserves invested to bond maturity	24,698	5%	20,764	5%
	<u>\$ 526,221</u>	<u>100%</u>	<u>\$ 451,127</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):

	2021						2020	
	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	\$ 251,633	\$ –	\$ 11,487	\$ –	\$ 13,854	\$ –	\$ 192,465	\$ –
Federal Home Loan								
Mortgage Corporation	–	27,954	–	–	–	–	–	8,222
Federal Farm Credit Bank	–	31,957	–	–	–	4,544	–	43,390
Federal Home Loan Bank	–	56,357	–	–	–	1,000	–	57,796
Federal National								
Mortgage Association	–	25,994	–	–	–	500	–	40,281
Private Export Funding Corp.	–	2,421	–	–	–	–	–	2,486
Assets Valued at Fair Value	<u>\$ 251,633</u>	<u>\$ 144,683</u>	<u>\$ 11,487</u>	<u>\$ –</u>	<u>\$ 13,854</u>	<u>\$ 6,044</u>	<u>\$ 192,465</u>	<u>\$ 152,175</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
2022	\$ 11,510	\$ 17,474	\$ 5,120	\$ 3,463	\$ 1,806	\$ 389
2023	11,985	17,000	5,355	3,205	933	329
2024	12,815	16,804	5,610	2,936	958	300
2025	13,365	16,713	1,410	2,655	983	269
2026	12,705	16,280	1,480	2,583	1,008	238
2027-2031	69,475	73,801	8,665	11,661	5,078	674
2032-2036	86,640	53,810	11,180	9,141	1,307	91
2037-2041	97,620	27,624	14,420	5,900	933	37
2042-2046	17,985	13,507	14,410	1,845	187	2
2047-2051	41,340	6,403	–	–	–	–
<b>Total</b>	<u><b>\$ 375,440</b></u>	<u><b>\$ 259,416</b></u>	<u><b>\$ 67,650</b></u>	<u><b>\$ 43,389</b></u>	<u><b>\$ 13,193</b></u>	<u><b>\$ 2,329</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 2021 and 2020 were \$37.1 million and \$32.2 million, respectively. Total revenues available for debt service as defined for the same periods were \$129.5 million and \$133.3 million. On December 31, 2021, annual principal and interest payments are expected to require between 25% and 29% 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,	
	2021	2020
	(In thousands)	
Series 2021A Revenue bonds, 5.0%, due 2026-2051, earliest call 2031	\$ 78,685	\$ —
Series 2020A Revenue Refunding bonds, 0.433-1.467%, due 2022-2028	48,755	49,020
Series 2015 Revenue bonds, 5.0%, due 2022-2040, earliest call 2025	123,625	126,215
Series 2012 Revenue Refunding bonds, 4.0%, due 2022	5,610	11,005
Series 2011 Revenue Refunding bonds, 4.0%, due 2021	—	1,665
Series 2010A Revenue bonds, 4.8-5.6%, due 2022-2035, currently callable	118,765	119,935
<b>Total Principal Outstanding on Long-Term Debt</b>	<b>\$375,440</b>	<b>\$307,840</b>

In June 2021, the PUD issued \$78.6 million of Series 2021A Electric System Revenue bonds at a premium of \$25.9 million with an average interest rate of 1.5%. The proceeds from the bonds will be used to finance additions, betterments and improvements to and renewals, replacements and extensions of the Electric System.

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 million 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 were considered to be defeased and the liability for those bonds were removed from the Statements of Net Position in 2020. On December 1, 2021, the outstanding Series 2011 bonds were called and fully repaid by the irrevocable trust.

In 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, was 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 was \$5.5 million at the time of refunding in 2020.

Changes in the Electric System long-term debt during the years ended December 31, 2021, and 2020, follow (in thousands):

	2019	2020			2021		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	\$ 318,205	\$ 49,085	\$ (59,450)	\$ 307,840	\$ 78,685	\$ (11,085)	\$ 375,440
Unamortized bond premium	22,211	—	(5,381)	16,830	—	22,590	39,420
Unamortized bond discount	(76)	—	4	(72)	—	5	(67)
Total Debt	340,340	49,085	(64,827)	324,598	78,685	11,510	414,793
Less: Current maturities	(10,335)			(11,085)			(11,510)
<b>Total Long-Term Debt</b>	<b>\$ 330,005</b>			<b>\$ 313,513</b>			<b>\$ 403,283</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, 2021 and 2020, the PUD held the reserve requirement of \$18.3 million and \$14.4 million, respectively, in the Electric System.

The fair value of the Electric System's long-term debt was \$458.7 million and \$384.6 million, respectively, at December 31, 2021 and 2020. 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,	
	2021	2020
	<i>(In thousands)</i>	
Series 2020A Revenue Refunding bonds, 5.0%, due 2022-2024	\$ 14,550	\$ 18,965
Series 2015 Revenue bonds, 5.0%, due 2025-2045, earliest call 2025	39,985	39,985
Series 2010B Revenue bonds, 5.3-5.7%, due 2022-2040, currently callable	13,115	13,590
<b>Total Principal Outstanding on Long-Term Debt</b>	<b>\$ 67,650</b>	<b>\$ 72,540</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, was recognized in 2020 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 was \$2.5 million at the time of refunding in 2020.

Changes in the Generation System long-term debt during the years ended December 31, 2021, and 2020, follow (in thousands):

	2019	2020			2021		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	\$ 80,500	\$ 19,725	\$ (27,685)	\$ 72,540	\$ –	\$ (4,890)	\$ 67,650
Unamortized bond premiums	11,615	2,435	(7,291)	6,759	–	(766)	5,993
Unamortized bond discounts	(9)	–	–	(9)	–	1	(8)
Total Debt	92,106	22,160	(34,976)	79,290	–	(5,655)	73,635
Less: Current maturities	(5,310)			(4,890)			(5,120)
<b>Total Long-Term Debt</b>	<b>\$ 86,796</b>			<b>\$ 74,400</b>			<b>\$ 68,515</b>

The PUD is required to maintain a cash reserve for certain Generation System bonds. At December 31, 2021 and 2020, the PUD maintained the reserve requirement of \$6.0 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 \$79.3 million and \$87.9 million, respectively, at December 31, 2021 and 2020. 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,	
	2021	2020
	(In thousands)	
Series 2019 Revenue Refunding bonds, 5.0%, due 2022-2031, not callable	\$ 5,715	\$ 6,145
Series 2011 Revenue Refunding bonds, 4.0-5.0%, due 2022, currently callable	845	1,635
State of Washington Drinking Water Revolving Fund loans:		
equal principal payments plus 1.0% interest due annually through 2042	3,921	819
equal principal payments plus 1.0% interest due annually through 2034	1,619	1,744
equal principal payments plus 1.5% interest due annually through 2029	661	744
equal principal payments plus 1.5% interest due annually through 2027	384	448
equal principal payments plus 2.5% interest due annually through 2023	48	96
<b>Total Principal Outstanding on Long-Term Debt</b>	<b>\$ 13,193</b>	<b>\$ 11,631</b>

Changes in the Water System long-term debt during the years ended December 31, 2021, and 2020, follow (in thousands):

	2019		2020		2021		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	\$ 8,975	\$ —	\$ (1,195)	\$ 7,780	\$ —	\$ (1,220)	\$ 6,560
Unamortized bond premiums	1,707	—	(209)	1,498	—	(210)	1,288
Unamortized bond discounts	—	—	—	—	—	—	—
Other notes payable	3,882	313	(344)	3,851	3,139	(357)	6,633
Total Debt	14,564	313	(1,748)	13,129	3,139	(1,787)	14,481
Less: Current maturities	(1,537)			(1,576)			(1,806)
<b>Total Long-Term Debt</b>	<b>\$ 13,027</b>			<b>\$ 11,553</b>			<b>\$ 12,675</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 2021 and 2020, the PUD initiated drawdowns of \$3.1 million and \$0.3 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, 2021 and 2020, the PUD maintained the reserve requirement of \$0.4 million.

The fair value of the Water System's long-term debt was \$7.8 million and \$9.5 million, respectively, at December 31, 2021 and 2020. 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 80% and 82% of its energy purchases in 2021 and 2020 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. In 2021 and 2020, these projects supplied 6% of the PUD's energy needs.

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

The Jackson Project is a multipurpose hydroelectric project with a capacity of 111.8 megawatts.

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, 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, 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 \$23.7 million and \$23.1 million of power in 2021 and 2020, 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 \$34.5 million and \$37.9 million at December 31, 2021 and 2020, respectively. The Generation System recorded interest expense on these loans of \$1.4 million in 2021 and \$1.6 million in 2020.



**Note 7**  
**Retirement and Deferred Compensation Plans**

**DEFINED BENEFIT PENSION PLANS**

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

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

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

**General Benefits Provided**

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

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

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

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

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

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
		(In thousands)	
2021	\$ 83	\$ 14,081	\$ 2,811
2020	91	14,560	2,898
2019	81	13,105	2,535

**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 six 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>
September 2018 through August 2020	12.83%	6.00%
September 2020 through June 2021	12.97%	6.00%
July 2021 through December 2021	10.25%	6.00%

The PUD's contributions as reported by PERS to the plan were \$6.4 million, and \$6.5 million for the years ended December 31, 2021, and 2020, respectively.

### *PERS Plan 2/3 Description*

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

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

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

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of five 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>
July 2019 through August 2020	12.83%	7.90%	varies
September 2020 through June 2021	12.97%	7.90%	varies
July 2021 through December 2021	10.25%	6.36%	varies

The PUD's contributions as reported by PERS to the plan were \$10.8 million, and \$10.9 million for the years ended December 31, 2021, and 2020, respectively.

### *Pension Financial Statement Balances*

At June 30, 2021, the PUD reported total pension assets of \$105.3 million for its proportionate share of the net pension assets and liabilities. The pension liability was \$11.3 million for PERS Plan 1 and the pension asset was \$116.6 million for PERS Plan 2/3.

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

The PUD's proportionate share of the net pension plan for PERS Plan 1 was 0.92% and 0.85% for June 30, 2021, and 2020 respectively. The PUD's proportionate share of the PERS Plan 2/3 was 1.17% and 1.08% for June 30, 2021, and 2020 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, 2021, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2020, with update procedures used to roll forward the total pension liability to the measurement date.

For the years ended December 31, 2021, and 2020, the PUD recognized a pension credit of \$5.8 million and \$6.4 million, respectively, for PERS Plan 1 and a pension credit of \$37.0 million and \$9.5 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):

	2021				2020			
	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	\$ —	\$ —	\$ 5,665	\$ 1,430	\$ —	\$ —	\$ 4,963	\$ 1,737
Net difference between projected and actual investment earnings on pension plan investments	—	12,522	—	97,488	—	166	—	704
Changes of assumptions	—	—	170	8,284	—	—	198	9,471
Changes in proportion and differences between contributions and proportionate share of contributions	—	—	2,545	2,087	—	—	992	2,224
Contributions subsequent to the measurement date	2,867	—	4,820	—	3,320	—	5,388	—
	<u>\$ 2,867</u>	<u>\$ 12,522</u>	<u>\$ 13,200</u>	<u>\$ 109,289</u>	<u>\$ 3,320</u>	<u>\$ 166</u>	<u>\$ 11,541</u>	<u>\$ 14,136</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, 2022. 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	\$ —	\$ (26,725)
2022	(3,317)	(24,974)
2023	(3,040)	(23,893)
2024	(2,874)	(25,602)
2025	(3,291)	(107)
2026 - 2027	—	330
Total	<u>\$ (12,522)</u>	<u>\$ (100,971)</u>

### Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the June 30, 2020, 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, 2020, to June 30, 2021, 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 Ac-



tuaries. 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, 2021, 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 one percentage point lower or one percentage point higher than the current rate.

	(\$ Millions)					
	2021			2020		
	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	\$ 19.2	\$ 11.3	\$ 4.4	\$ 37.5	\$ 29.9	\$ 23.3
PERS Plan 2/3	(33.2)	(116.6)	(185.3)	86.3	13.9	(45.8)

## 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, 2021		December 31, 2020	
	PERS Plan 1	PERS Plan 2/3	PERS Plan 1	PERS Plan 2/3
Electric System	\$ 10,760	\$ (110,623)	\$ 28,419	\$ 13,164
Generation System	243	(2,966)	720	372
Water System	281	(3,056)	764	328

## 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 2021 ACFR financial report. The DRS ACFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia WA 98504-8380.

## POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

### Plan Descriptions

#### Healthcare Plan

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

In general, the PUD pays a contribution toward the retiree's PUD group health plan premiums or to a Health Reimbursement Arrangement (HRA). For retirees and their dependents under age 65 who elect a PUD group medical plan, the PUD contribution is based on 75% of the premium for the most commonly elected retiree health plan during the prior year. Retirees and their dependents under age 65 who waive PUD group medical plan coverage receive a \$180 monthly contribution into their HRA. When a retiree or dependent becomes eligible for Medicare at age 65, the retiree is no longer eligible for the group medical plan; however, the PUD contributes \$180 a month to the retiree's HRA. This OPEB plan is closed to employees hired after July 1, 2009. In 2021 and 2020, the PUD contributed \$2.9 million and \$2.4 million, respectively, to the plans. Plan members receiving benefits contributed \$0.4 million in 2021 and \$0.6 million in 2020.

#### 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 \$354 thousand and \$355 thousand towards the premium in 2021 and 2020, respectively.



### Valuation Date, Measurement Date and Reporting Date

The Valuation Date of OPEB liability is December 31, 2020. This is the date as of which the census data is gathered, and the actuarial valuation is performed. The Measurement Date is December 31, 2020. This is the date as of which the total OPEB liability is determined and rolled forward to the reporting date of December 31, 2021. The reporting date is December 31, 2021, 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, 2021, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.0% based on Actuary's capital market expectations.
Salary increases	2.75% 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	6.5 % for 2020, decreasing to an ultimate rate of 4.5 % for 2040 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 2021.
Retirees' share of life benefit-related costs	25% of projected life insurance premiums for retirees in 2021 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, 2021, valuation were based on the results of an actuarial experience study for the period ended December 31, 2020.

### OPEB Liability

As of December 31, 2021, the PUD's total OPEB liability for retiree healthcare was \$41.9 million, and \$5.7 million for retiree life benefits, recorded in other accrued and other liabilities. The annual payroll of active employees covered by the plan was \$74.1 million in 2021, compared to \$71.8 million in 2020.

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

	Healthcare	Life
Retirees (and beneficiaries for healthcare)	643	209
Active employees	469	3
	<u>1,112</u>	<u>212</u>

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

HEALTHCARE	2021			2020
	Electric	Generation	Water	Combined
Net OPEB liability – beginning of year	\$ 44,110	\$ 1,074	\$ 1,118	\$ 41,733
Changes for the year:				
Service Cost	1,488	40	41	1,198
Interest on total OPEB liability	1,208	33	33	1,704
Effect of economic/demographic gains/(losses)	(858)	(23)	(23)	–
Effect of assumptions changes or inputs	(3,416)	(92)	(93)	4,442
Expected benefit payments	(2,598)	(70)	(71)	(2,775)
Net Changes	(4,176)	(113)	(114)	4,569
<b>Net OPEB liability – end of year</b>	<b>\$ 39,934</b>	<b>\$ 961</b>	<b>\$ 1,004</b>	<b>\$ 46,302</b>

LIFE	2021			2020
	Electric	Generation	Water	Combined
Net OPEB liability – beginning of year	\$ 4,697	\$ 122	\$ 123	\$ 4,405
Actuarial beginning of year adjustment				
Changes for the year:				
Service Cost	11	0	0	7
Interest on total OPEB liability	125	3	3	176
Effect of economic/demographic gains/(losses)	838	23	23	–
Effect of assumptions changes or inputs	36	1	1	653
Expected benefit payments	(285)	(8)	(8)	(299)
Net Changes	726	20	20	537
<b>Net OPEB liability – end of year</b>	<b>\$ 5,423</b>	<b>\$ 141</b>	<b>\$ 143</b>	<b>\$ 4,942</b>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.74 percent in 2020 to 2.12 percent in 2021. 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 2.12 percent, as well as what the PUD's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.12%) or one percentage point higher (3.12%) than the current rate (in millions):

	2021		
	1% Decrease (1.12%)	Current Discount Rate (2.12%)	1% Increase (3.12%)
Healthcare	\$ 46.3	\$ 41.9	\$ 38.1
Life	6.4	5.7	5.2

#### 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 one percentage point lower or one percentage point higher than the current healthcare cost trend rates (in millions):

	2021		
	1% Decrease 5.50% Graded Down to 3.50%	Current Trend Rate 6.50% Graded Down to 4.50%	1% Increase 7.50% Graded Down to 5.50%
Healthcare	\$ 40.5	\$ 41.9	\$ 43.5



## OPEB Financial Statement Balances

For the year ended December 31, 2021, and 2020, the PUD recognized OPEB healthcare expense of \$1.9 million and \$3.2 million, respectively. For OPEB life insurance, the PUD recognized OPEB expense of \$0.2 million and \$0.8 million for the year ended December 31, 2021, and 2020, respectively. At December 31, 2021, the PUD reported deferred outflows of resources and deferred inflows of resources related to OPEB healthcare from the following sources (in thousands):

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 276	\$ (654)
Changes of assumptions or other inputs	2,987	(4,211)
<b>Total</b>	<b>\$ 3,263</b>	<b>\$ (4,865)</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:	
2022	\$ (929)
2023	(810)
2024	137
2025	—
Thereafter	—
	<u>\$ (1,602)</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 \$54.00 per month into an employee's individual HRA account in January through March 2021. Effective April 2021, the PUD contributed \$55.08 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 \$17 thousand and \$19 thousand in 2021 and 2020, 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 adjust-

ments. In 2021, 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. Effective July 2020, the PUD makes matching contributions in an amount equal to 100% of the first two percent 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 \$2.3 million and \$2.1 million in 2021 and 2020, 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, 2021, 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 million as of December 31, 2021 and 2020.

## **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	2021	2020	2019	2018	2017
Employer's proportion of the net pension liability (asset)	0.92%	0.85%	0.88%	0.87%	0.87%
Employer's proportionate share of the net pension liability	\$ 11,285	\$ 29,903	\$ 33,889	\$ 38,769	\$ 41,111
Employer's covered employee payroll	\$ 773	\$ 649	\$ 642	\$ 608	\$ 768
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	1,459.90%	4,607.55%	5,278.66%	6,376.48%	5,352.03%
Plan fiduciary net position as a percentage of the total pension liability	88.74%	68.64%	67.12%	63.22%	61.24%

PERS 2/3	2021	2020	2019	2018	2017
Employer's proportion of the net pension liability (asset)	1.17%	1.08%	1.12%	1.10%	1.10%
Employer's proportionate share of the net pension liability	\$ (116,645)	\$ 13,864	\$ 10,915	\$ 18,707	\$ 38,094
Employer's covered employee payroll	\$ 140,052	\$ 126,542	\$ 122,155	\$ 114,293	\$ 107,494
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	(83.29)%	10.96%	8.94%	16.37%	35.44%
Plan fiduciary net position as a percentage of the total pension liability	120.29%	97.22%	97.77%	95.77%	90.97%

#### 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	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contributions	\$ 83	\$ 91	\$ 81	\$ 81	\$ 71	\$ 98	\$ 124	\$ 155	\$ 152	\$ 158
Contributions in relation to the contractually required contributions	(83)	(91)	(81)	(81)	(71)	(98)	(124)	(155)	(152)	(158)
Contribution deficiency (excess)	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Covered employer payroll	\$ 696	\$ 705	\$ 632	\$ 632	\$ 594	\$ 879	\$ 1,221	\$ 1,611	\$ 1,854	\$ 2,196
Contributions as a percentage of covered employee payroll	11.93%	12.91%	12.82%	12.82%	11.95%	11.15%	10.14%	9.62%	8.20%	7.19%

PERS 2/3	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contributions	\$ 16,892	\$ 17,458	\$ 15,640	\$ 15,239	\$ 13,267	\$ 11,925	\$ 10,581	\$ 8,989	\$ 7,668	\$ 6,619
Contributions in relation to the contractually required contributions	(16,892)	(17,458)	(15,640)	(15,239)	(13,267)	(11,925)	(10,581)	(8,989)	(7,668)	(6,619)
Contribution deficiency (excess)	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Covered employer payroll	\$ 146,019	\$ 135,327	\$ 121,760	\$ 119,564	\$ 110,945	\$ 106,716	\$ 103,383	\$ 97,703	\$ 93,277	\$ 92,171
Contributions as a percentage of covered employee payroll	11.57%	12.90%	12.84%	12.75%	11.96%	11.17%	10.23%	9.20%	8.22%	7.18%



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

As of December 31 *(in thousands)*

	2021 Post-Employment		2020 Post-Employment		2019 Post-Employment	
	Health	Life	Health	Life	Health	Life
Total OPEB Liability						
Service cost	\$ 1,569	\$ 12	\$ 1,198	\$ 7	\$ 1,151	\$ 7
Interest on total OPEB liability	1,274	132	1,704	175	1,565	163
Effect on economic/demographic gains/ (losses)	(906)	884	—	—	794	(14)
Effect of assumption changes or inputs	(3,602)	38	4,442	653	(4,629)	(312)
Expected benefit payments	<u>(2,739)</u>	<u>(301)</u>	<u>(2,775)</u>	<u>(298)</u>	<u>(2,954)</u>	<u>(321)</u>
Net change in total OPEB liability	\$ (4,404)	\$ 765	\$ 4,569	\$ 537	\$ (4,073)	\$ (477)
Total OPEB liability, beginning	<u>46,302</u>	<u>4,942</u>	<u>41,733</u>	<u>4,405</u>	<u>45,806</u>	<u>4,882</u>
Total OPEB liability, ending	<u>\$ 41,898</u>	<u>\$ 5,707</u>	<u>\$ 46,302</u>	<u>\$ 4,942</u>	<u>\$ 41,733</u>	<u>\$ 4,405</u>
Covered employee payroll	\$ 74,130	N/A	\$ 71,826	N/A	\$ 70,291	N/A
Total OPEB liability as a % of covered employee payroll	56.52%	N/A	64.46%	N/A	59.37%	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 2021: 2.12%, 2020: 2.74%; 2019: 4.10%.

The PUD has established a fund to address the unfunded portion of future post-employment benefits. The balance of this account was \$36.3 million and \$34.9 million as of December 31, 2021 and 2020, 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,	2017	2018	2019	2020	2021
<b>Operating Revenues:</b>					
Sale of electric energy	\$ 643,121	\$ 647,228	\$ 645,833	\$ 651,763	\$ 667,405
Other operating revenues	28,685	36,878	28,451	32,088	32,334
Unbilled revenues	1,500	(1,921)	(2,700)	(5,300)	8,400
<b>Total Operating Revenues</b>	<b>673,306</b>	<b>682,185</b>	<b>671,584</b>	<b>678,551</b>	<b>708,139</b>
<b>Operating Expenses:</b>					
Purchased power	333,338	333,705	349,909	312,131	334,427
Operations and maintenance	219,526	221,225	211,571	239,235	215,636
Depreciation	53,191	53,624	55,493	57,202	58,988
Taxes	37,994	38,668	38,710	38,525	39,534
<b>Total Operating Expenses</b>	<b>644,049</b>	<b>647,222</b>	<b>655,683</b>	<b>647,093</b>	<b>648,585</b>
<b>Net Operating Income (Loss)</b>	<b>29,257</b>	<b>34,963</b>	<b>15,901</b>	<b>31,458</b>	<b>59,554</b>
<b>Interest Charges</b>	<b>13,959</b>	<b>14,455</b>	<b>15,966</b>	<b>15,401</b>	<b>13,930</b>
<b>Other Income and Expense:</b>					
Interest income	5,781	9,679	11,895	8,577	5,415
Net increase (decrease) in the fair value of investments	(456)	1,002	2,078	2,513	(4,857)
Other income and expense, net	3,954	(7,090)	6,731	(4,262)	3,095
<b>Total Other Income and Expense</b>	<b>9,279</b>	<b>3,591</b>	<b>20,704</b>	<b>6,828</b>	<b>3,653</b>
<b>Capital Contributions:</b>					
Cash contributions	17,338	18,053	24,645	23,003	21,424
Non-cash contributions	5,010	6,598	9,098	5,442	6,376
<b>Total Capital Contributions</b>	<b>22,348</b>	<b>24,651</b>	<b>33,743</b>	<b>28,445</b>	<b>27,800</b>
<b>Net Income</b>	<b>46,925</b>	<b>48,750</b>	<b>54,382</b>	<b>51,330</b>	<b>77,077</b>
Non-cash contributions	(5,010)	(6,598)	(9,098)	(5,442)	(6,376)
Interest charges	13,959	14,455	15,966	15,401	13,930
Depreciation	53,191	53,624	55,493	57,202	58,988
Pension & OPEB liability actuarial adjustments	(6,889)	(12,964)	(13,747)	(16,207)	(43,297)
Net increase (decrease) in the fair value of investments	456	(1,002)	(2,078)	(2,513)	4,857
Project termination charge	—	9,637	—	8,465	—
<b>Balance Available for Debt Coverage</b>	<b>102,632</b>	<b>105,902</b>	<b>100,918</b>	<b>108,236</b>	<b>105,179</b>
<b>Parity Debt Service Costs:</b>					
Interest	17,774	17,358	16,937	16,179	15,762
Principal	9,080	9,495	9,918	10,400	11,085
<b>Total Parity Debt Service Costs</b>	<b>\$ 26,854</b>	<b>\$ 26,853</b>	<b>\$ 26,855</b>	<b>\$ 26,579</b>	<b>\$ 26,847</b>
<b>Parity Debt Service Coverage</b>	<b>3.8x</b>	<b>3.9x</b>	<b>3.8x</b>	<b>4.1x</b>	<b>3.9x</b>

## Electric System Revenue and Statistical Data (Unaudited)

Years Ended December 31,	2017	2018	2019	2020	2021	% Change From 2020
<b>Retail Customers (average)</b>						
Residential	314,323	318,421	322,225	327,475	332,746	1.6%
Commercial	31,357	31,712	32,443	33,317	34,071	2.3%
Industrial	81	80	81	82	76	-7.3%
Other	221	205	204	202	203	0.5%
<b>Retail Customers</b>	<b>345,982</b>	<b>350,418</b>	<b>354,953</b>	<b>361,076</b>	<b>367,096</b>	<b>1.7%</b>
<b>Megawatt-Hours Billed</b>						
Residential	3,642,117	3,566,731	3,603,089	3,724,600	3,788,553	1.7%
Commercial	2,371,339	2,363,415	2,373,169	2,226,949	2,311,513	3.8%
Industrial	553,544	528,244	527,237	472,618	466,812	-1.2%
Wholesale	2,227,442	2,016,038	1,401,511	2,060,403	1,512,879	-26.6%
Other	27,137	29,000	27,728	28,465	26,892	-5.5%
<b>Megawatt-Hours Billed</b>	<b>8,821,579</b>	<b>8,503,428</b>	<b>7,932,734</b>	<b>8,513,035</b>	<b>8,106,649</b>	<b>-4.8%</b>
<b>Revenues Billed (in thousands)</b>						
Residential	\$ 360,906	\$ 362,924	\$ 366,804	\$ 379,219	\$ 384,362	1.4%
Commercial	205,652	208,405	209,058	196,880	204,048	3.6%
Industrial	37,762	36,729	36,611	32,972	32,564	-1.2%
Wholesale	34,947	34,985	29,317	38,783	42,693	10.1%
Other	3,854	4,185	4,043	3,909	3,739	-4.3%
<b>Revenues Billed</b>	<b>\$ 643,121</b>	<b>\$ 647,228</b>	<b>\$ 645,833</b>	<b>\$ 651,763</b>	<b>\$ 667,406</b>	<b>2.4%</b>
<b>Average Retail Rate per kWh:</b>						
Residential	\$ 0.099	\$ 0.102	\$ 0.102	\$ 0.102	\$ 0.101	-1.0%
Commercial	\$ 0.087	\$ 0.088	\$ 0.088	\$ 0.088	\$ 0.088	0.0%
Industrial	\$ 0.068	\$ 0.07	\$ 0.069	\$ 0.07	\$ 0.07	0.0%
Number of Employees	1,004	1,005	1,046	1,028	1,025	-0.3%
Electric Line Miles	6,439	6,496	6,547	6,581	6,608	0.4%
New Electric Service Connections	5,132	4,341	4,339	5,638	5,934	5.3%



## Water System

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

(In thousands)

Years Ended December 31,	2017	2018	2019	2020	2021
<b>Operating Revenues:</b>					
Sale of water	\$ 12,753	\$ 13,133	\$ 13,361	\$ 13,755	\$ 14,626
Other operating revenues	344	397	403	368	362
<b>Total Operating Revenues</b>	<b>13,097</b>	<b>13,530</b>	<b>13,764</b>	<b>14,123</b>	<b>14,988</b>
<b>Operating Expenses:</b>					
Purchased water	2,585	2,438	2,596	2,925	3,217
Operations and maintenance	5,180	5,091	5,239	5,764	5,447
Depreciation	2,875	2,932	3,028	3,191	3,269
Taxes	641	688	726	754	784
<b>Total Operating Expenses</b>	<b>11,281</b>	<b>11,149</b>	<b>11,589</b>	<b>12,634</b>	<b>12,717</b>
<b>Net Operating Income</b>	<b>1,816</b>	<b>2,381</b>	<b>2,175</b>	<b>1,489</b>	<b>2,271</b>
<b>Interest Charges</b>	<b>705</b>	<b>614</b>	<b>743</b>	<b>312</b>	<b>266</b>
<b>Other Income and Expense:</b>					
Interest income	246	418	610	377	120
Net increase (decrease) in the fair value of investments	(26)	46	55	(14)	(86)
Other income and expense, net	945	—	28	(22)	(27)
<b>Total Other Income and Expense</b>	<b>1,165</b>	<b>464</b>	<b>693</b>	<b>341</b>	<b>7</b>
<b>Capital Contributions:</b>					
Cash contributions	2,120	3,441	4,286	4,273	3,425
Non-cash contributions	1,609	2,277	4,158	2,081	2,713
<b>Total Capital Contributions</b>	<b>3,729</b>	<b>5,718</b>	<b>8,444</b>	<b>6,354</b>	<b>6,138</b>
<b>Net Income</b>	<b>6,005</b>	<b>7,949</b>	<b>10,569</b>	<b>7,872</b>	<b>8,150</b>
Non-cash contributions	(1,609)	(2,277)	(4,158)	(2,081)	(2,713)
Interest charges	705	614	743	312	266
Depreciation	2,875	2,932	3,028	3,191	3,269
Settlement amortization (1)	(927)	—	—	—	—
Pension and OPEB liability actuarial adjustments	(178)	(348)	(354)	(446)	(1,184)
Net increase (decrease) in the fair value of investments	26	(46)	(55)	14	86
<b>Balance Available for Debt Coverage</b>	<b>6,897</b>	<b>8,824</b>	<b>9,773</b>	<b>8,862</b>	<b>7,874</b>
<b>Parity Debt Service Costs:</b>					
Interest	755	695	617	418	381
Principal	1,705	1,706	1,621	1,195	1,220
Total Parity Debt Service Costs	2,460	2,401	2,238	1,613	1,601
Less: Assessment payments received	(90)	(65)	(32)	(15)	(5)
<b>Debt Service Paid from Revenues</b>	<b>\$ 2,370</b>	<b>\$ 2,336</b>	<b>\$ 2,206</b>	<b>\$ 1,598</b>	<b>\$ 1,596</b>
<b>Parity Debt Service Coverage</b>	<b>2.9x</b>	<b>3.8x</b>	<b>4.4x</b>	<b>5.5x</b>	<b>4.9x</b>
<b>Number of Water Customers (average)</b>	<b>20,293</b>	<b>20,808</b>	<b>21,635</b>	<b>22,161</b>	<b>22,774</b>
<b>Water Sales &amp; Purchases (thousand cubic feet)</b>					
Retail Cubic Feet Sold	198,117	197,606	196,688	204,000	220,504
Wholesale Cubic Feet Sold	22,189	24,003	26,837	29,373	31,499
<b>Total Cubic Feet Sold</b>	<b>220,306</b>	<b>221,609</b>	<b>223,525</b>	<b>233,373</b>	<b>252,003</b>
<b>Average Retail Water Rates (thousand cubic feet)</b>					
Residential	\$3.46	\$3.52	\$3.52	\$3.52	\$3.52
Commercial	\$3.12	\$3.24	\$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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