

Energizing Life in Our Communities

# 2022 Annual Report

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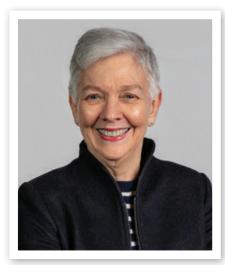
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## **Greetings** from the Commissioners



Rehecca J. Walfe Rebecca Wolfe



Sid Logan



Panya Elson

Tanya "Toni" Olson

e, your publicly elected Board of Commissioners, are focused on providing our customers with affordable and reliable power and water that's safe and envi-

ronmentally sustainable.

This is an exciting time to be in the utility business. New technologies, bold initiatives, and cutting-edge programs have us uniquely situated to make life better for every one of our customers. We made significant strides in 2022. We launched our new MySnoPUD phone app, prepared for the roll out of new meters for our Connect Up program, held our first Run for Warmth race to raise money for Project PRIDE to support income-qualified customers and so much more.

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 the 875,000 citizens of Snohomish County and Camano Island and the businesses that keep them thriving.

We are pleased to share this 2022 annual report and are proud of the accomplishments of our employees and customers over the past year as we power forward.

### Message from the CEO/GM John Haarlow

ere at Snohomish PUD, we are the very meaning of *evolving energy*. Every week brings new changes, new challenges and new opportunities to our ever-evolving utility. This is an exciting time to be in the utility business, and the PUD is uniquely situated to meet a myriad of demands, from clean energy mandates to climate change and the coming electrification boom. We are ready!

I have space here to share just a few examples, but I'll start with EVs. This past year we made some great strides on supporting electric vehicles. It is common now to see two or three Teslas in a parking lot, and the demand for the new Ford F-150 Lightning trucks outpaces production. One of our most popular events this past year was hosting an EV Car Show, which brought in more than two dozen electric vehicles for our customers to view and get their questions answered – directly by the owners. Additionally, we put in fast chargers at our headquarters location and are testing vehicle-to-grid (bidirectional) chargers at our Microgrid in Arlington.

Also popular this year has been our next new community solar project. The project – named "El Sol al Alcance de tus Manos" or "The sun at your fingertips" in a vote by the local community members – will be built in a diverse neighborhood of our service area. The funds it generates will assist PUD customers needing assistance paying their bills.

From participating customers, we gathered information and stats through our Flex Energy programs. The pilot programs, which have included a mix of time-of-use, peak rates and demand-response programs, are helping us better understand how incentives can motivate and smart technology can help residential customers shift energy usage away from peak demand, high-cost periods. We had a couple of notable cold weather events this past year where it is becoming increasingly evident that having this flexibility will be important as we evolve into our future.



To give our customers the best experience we can, we launched an app this year where our customers can keep up on their personal energy use and billing info as well as have information about what's going on at their utility at their fingertips.

Maybe one of the things I'm proudest of as we continue being a utility laser-like focused on serving our customers and communities into the future is that we were recognized by the American Public Power Association (APPA) as a Platinum Public Power Provider (RP3) for providing reliable and safe electric service to our customers.

To earn the RP3 designation, a utility must demonstrate proficiency in four key disciplines: reliability, safety, workforce development and system improvement. Snohomish PUD earned a 94 out of a possible 100 points on our application. This achievement was only possible thanks to the work of all of our fantastic Team PUD members.

Space limits my ability to share the wide breadth of all we actually accomplished this year (you can find more details in this annual report) so I'll leave you with this: We are a changing, happening, *evolving* utility that stands ready to meet and exceed the needs of the very dynamic residential and business communities we serve as we move into an exciting future. It's a great place to be.

## Reliability

n 2022, the PUD continued to provide reliable service for its customers despite increasingly extreme fluctuations in temperatures and a huge storm to close out the year.

The PUD was recognized as a Platinum Reliable Public Power Provider (RP3) by the American Public Power Association (APPA) for providing reliable and safe electric service to its customers. To earn the RP3 designation, public power utilities must demonstrate proficiency in four key disciplines: reliability, safety, workforce development and system improvement. The PUD earned 94 out of a possible 100 points on its application. The 45-page application covered an array of topics, from reliability metrics to financial health, that demonstrated sound business practices and a utility-wide commitment to safe and reAbove, hopeful applicants for the PUD's apprenticeship program prepare for testing at the PUD's pole yard in Arlington. Below, the utility earned prestigious RP3 designation in 2022.



**American Public Power Association** 

liable delivery of electricity. Documentation contained in the application included safety and cybersecurity training, financial policies, equipment testing records, engineering studies, capital planning documents, system improvements and more.

The largest shutdown in the history of the Henry M. Jackson Hydroelectric Project officially ended in early April. Throughout the 20-day shutdown, crews worked long hours to perform necessary maintenance and address an unanticipated fiber-optic cable failure in the tunnel. This was a monumental task that was delayed due to the COVID-19 pandemic. The crews worked rotating shifts throughout the shutdown to get the work done.

A PUD project helped transform the downtown area of Lynnwood in the largest overhead-to-underground line conversion the PUD has ever undertaken. Crews undergrounded lines along 196th Street from Interstate 5 to just beyond 48th Avenue. Construction on the project began in May 2021 and finished in September 2022. In all, approximately 35 poles were removed, making room for wider roads and sidewalks for better mobility, taller buildings and new street lighting.

In October, the PUD hosted a ribbon-cutting to celebrate the completion of its Arlington Microgrid and Clean Energy Center. The project is located near the Arlington



Above, a pole is topped in preparation for the Lynnwood underground project. Below, PUD staff, elected officials and special guests celebrate the completion of the Arlington Microgrid and Clean Energy Center.



Airport and demonstrates multiple uses of energy storage, including utility-scale battery energy storage, residential battery energy storage and vehicle-to-grid charging systems. The Arlington Microgrid is a combination of a 500-kilowatt solar array, 1-megawatt/1.4-megawatt-hour lithium-ion battery energy storage system and a pair of vehicle-to-grid charging stations. Several local dignitaries attended the event, including U.S. Congresswoman Suzan DelBene; state representatives June Robinson, Keith Goehner, Mike Steele and Carolyn Eslick; and the Managing Director of Washington's Department of Commerce.

One major project that was completed early in the summer was the Hat Island cable repair. Due to a damaged cable, linemen were digging in the sand and racing against changing tides to repair a submarine cable that runs from Priest Point to the beaches of Hat Island. The damaged cable is responsible for providing power to the entire island and its residents. Prior to the repair, an expensive diesel generator was having to operate around the clock to provide three-phase power to the island.

The utility completed several additional construction projects and renovations, including taking on the largest transmission project in PUD history. The summer's most significant project was the construction of a second transmission line to Camano Island. At more than five miles of line, this will be the largest transmission project the PUD has done in-house and will bring improved reliability to the island. Other major projects were done at the Sky Valley Substation, Edgecomb Substation, Harbour Pointe Substation, along the Everett



Above, a crew works to repair a heavily damaged cable on Hat Island. Below, a drone zips toward power lines to perform an inspection.



waterfront and near 43rd Avenue in Lynnwood.

Late in the year, the PUD worked with Bellingham's Eagle-Eye Aerial Solutions to use drones, infrared and LIDAR scanners to inspect transmission lines and equipment in Arlington, Everett and Lynnwood. This included poles, lines, insulators, connectors and switches. Using the drones greatly increased the speed at which equipment could be inspected, while also improving system reliability and crew safety.

Every year, on average, the PUD replaces about 500 aging poles, assesses 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 upwards of 450 circuit miles each year to aid in reliability. Bill Greenfield and Tommy O'Brien were recognized by the PUD and the state for their life-saving assistance to a woman in distress.

he PUD continues to make the safety of its employees and customers its number one priority. For the second year running, the utility had its lowest recordable

injury rate, 3.88, since the PUD began recording these statistics over 40 years ago. The PUD was also proud to achieve its lowest-ever severity rate of injuries, 8.07.

Safety

This year's Safety Days continued to bring home the message that nothing matters more than keeping each other safe. Each day began with a personal testimony to the importance of a strong safety culture from keynote speaker Candace Carnahan.

Classes and demonstrations reminded employees that at work or home, an attitude and culture of safety must be a part of every experience.

The PUD continued its long-standing tradition of recognizing employees who render aid to someone in need. In spring of 2022, Tommy O'Brien and Bill "Greeny" Greenfield, both Major Yard Equipment Operators, were awarded the General Manager's Life Saving Award for helping a woman who was stuck during a snowstorm.

While working in Index, the pair saw a woman struggling



in terrible conditions as she attempted to deliver a 5-gallon gas can to her son. Tommy and Greeny were out rescuing District trucks stuck in the snow, but when they saw the woman, they both immediately recognized she was in a situation that was potentially dangerous. Their collective efforts to get her out and help warm her up after being in the snow – where she lost a shoe – likely saved her life. The pair was also awarded the Governor's Lifesaving

Award during the annual Governor's Industrial Safety and Health Conference in September.

PUD Journeyman Linemen Drew Partington and Damon Sprague also had a great showing at their first Pole Top Competition during the Governor's Industrial Safety and Health Conference with a third-place finish.

## **EVolving Energy**

he future is coming fast, and in 2022 the PUD worked in many ways to ensure it will be ready for significant change.

Nowhere was that evolution more apparent than in the world of electric vehicles. The PUD installed a pair of public electric vehicle fast chargers at its downtown headquarters, the first of their kind in the downtown core. A few months later, the PUD and HopeWorks cut the ribbon on another fast charger and a Level 2 charger at HopeWorks Station.

In the same year that the PUD dramatically increased its forecast for electric vehicle adoption due to legislation and market shifts, the PUD held its first EV Car Show at its headquarters in September. The event drew hundreds of customers from around the county to explore a wide range of EVs and speak directly to EV owners. Above, PUD, Department of Commerce representatives and leaders from HopeWorks celebrate the installation of EV chargers at the nonprofit. Below, EV enthusiasts at the utility's first-ever car show.



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As charging and battery storage technology evolves, the PUD is studying how bidirectional, vehicle-to-grid chargers will change EV ownership. At its Arlington Microgrid project, the PUD used two Mitsubishi V2G chargers and a pair of Nissan LEAFs to study how bidirectional chargers and EV batteries can integrate onto the grid.

The PUD celebrated its Arlington Microgrid with a ribbon-cutting in the fall. Elected officials and clean energy leaders from across the county and state attended the event and toured the facility, which deploys multiple types of battery storage and renewable energy to create a "backup power generator with a day job."

Over the course of the year, PUD engineers worked closely with partners at Pacific Northwest National Laboratories, University of Washington and other organizations and companies to study how renewable power, battery storage and smart inverters can make the grid more reliable and renewable energy more dependable.

In 2022, the PUD made big strides in its Strategic Planning effort. A team completed a series of 30 work-



District staff met with local residents of all species Sept. 17 at an open house for the new community solar array in South Everett.

shops, facilitating discussions with leaders, subject matter experts and other participants. The workshops helped prioritize thinking and recommendations, which were then presented to PUD leadership and will be used to create the utility's 2023-2027 Strategic Plan.

The first year of the PUD's FlexEnergy program, which piloted a variety of time-of-day rates and demand response programs, finished up in 2022. During the pilot's first winter peak season, customers shifted a total

of nearly 44 megawatts of energy to off-peak hours, enough to power four homes for a full year. The majority of FlexEnergy customers were successful in Year 1, saving money over the standard rate.

Supply-chain issues affecting electric and water advanced meters delayed deployment of the PUD's Connect Up program to the second half of 2023. Many parts of the project continued apace in 2022, including the installation of the communication network, design and approval of an opt-out policy and system integration work.

The PUD was awarded a grant from the Washington Clean Energy Fund to build a new community solar project in Everett. The project will generate funds to assist the utility's Project PRIDE program, which helps income-qualified customers pay their energy bills. In September, the PUD held an open house to engage the community and talk to neighbors about the new project. The event included mailings in multiple languages, targeted social media and physical signage around the park.



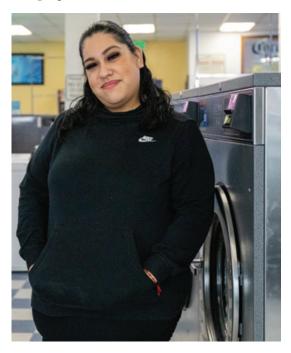
PUD FlexEnergy participants demonstrated that customers are interested in playing an active role in managing energy demands.



stop:

## Conservation

The PUD is committed to helping all customers conserve. Above, a PUD booth at a street fair offers energy-saving resources. Below, Blue Lagoon Laundry in Everett trimmed lighting and water bills by participating in a PUD direct-install program.



he PUD continues to demonstrate a commitment to conservation and earn national recognition for projects dedicated to energy efficiency. Working with local customers, the utility has found numerous ways to encourage energy efficiency, saving both the PUD and its customers energy and money.

The PUD's robust energy-efficiency programs helped reduce overall residential energy needs by more than 5.1 million kilowatt-hours (kWh) in 2022, saving its customers approximately \$500,000 (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 \$5.1 million in product incentives and rebates in 2022. Residential customers used those rebates and incentives to make energy-saving purchases, including approximately 2,000 washers and dryers, over 500 electric hybrid hot water heaters, 2,500 HVAC measures including over 1,300 smart thermostats, as well as more than 50 new efficient manufactured homes.

Commercial and industrial customers also benefited from the

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PUD's efforts. energy-efficiency There were nearly 39.5 million kWh energy-saving business projects in 2022, reducing overall energy demand by more than 4,203 kW in peak capacity.

More than 7.3 million kWh of the commercial and industrial energy savings came from the PUD's Energy Design Assistance program. This program works with customers, architects, and developers to incentivize new commercial and multi-family construction to ensure that energy efficiency, electric vehicle supply equipment, income-qualified assistance, and grid harmonization are considered and applied at construction instead of creating the need for costly retrofits later. The PUD also facilitated two meetings for customers impacted by the new WA State Clean Buildings Law to help them understand the implications and opportunities to comply and exceed efficiency standards moving forward.

The PUD's Small Business Direct Install program helps conduct ener-



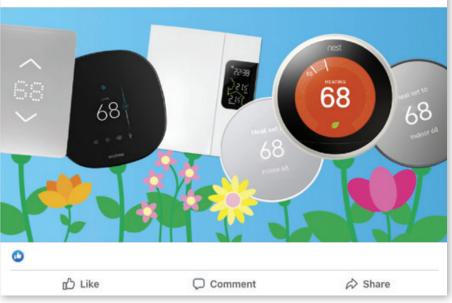
The utility also delivers energy-saving products to local food banks.



#### **Snohomish County PUD** April 5, 2022 . 3

Explore PUD Marketplace deals on smart thermostats this month! PUD rebates + manufacturer discounts = special pricing for our customers.

#### Find the right model for your home: https://snopud.techniartmarketplace.com/thermostats.html



Facebook posts, such as the one above, are just one of the many ways the PUD promotes energy-saving opportunities to customers.

gy-efficiency assessments and install free or low-cost solutions. Eligible businesses may take advantage of energy upgrades like LED lighting, occupancy sensors, refrigeration, water savers and HVAC improvements. Through the program, 382 businesses were served in 2022.

The PUD continues to offer bundles of energy-efficient products for free to income-qualified customers in its service area. Each customer, once approved for the PUD Income Qualified rate discount, received a unique code to use online at the PUD Marketplace or by calling to select the bundle that was right for their home. Shipping costs are also included. Bundles contain a mix of LED bulbs, advanced power strips and faucet aerators. The program awarded more than 1,700 bundles in 2022.

In addition to rebates and incentives, the PUD partnered with Snohomish County Weatherization to provide no-cost weatherization savings of over 210,000 kWh to many income-qualified homes in the community. Beyond energy efficiency, the PUD continued to work with EV owners to provide incentives for nearly 900 level 2 connected chargers. These chargers will support EV owners now and into the future as the utility continues to introduce new demand response rate designs.

The PUD remains an American Public Power Association Smart Energy Provider (SEP). The PUD is one of just 70 public power utilities in the nation to earn the designation. SEP designees are recognized for demonstrating a 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.

Welcome Customers

We are honored to serve you.



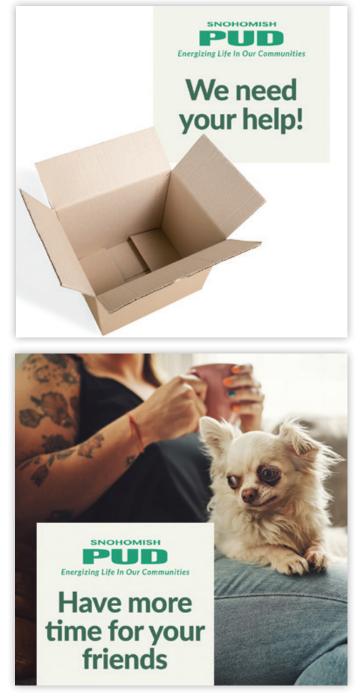
Energizing Life in Our Communities

In April 2022, Customer Service was all smiles for face-to-face engagement as the Electric Building Headquarters reopened to foot traffic.

## **Customer Service**

fter having offices closed for over two years due to health and safety concerns resulting from the COVID-19 pandemic, the PUD was thrilled to re-open offices to customers in April of 2022.

In addition to returning to offering excellent in-person customer service, the PUD was also able to improve customer's virtual experience with the launch of the MySnoPUD app, which provides customers easy access to payment tools, bill and usage information, and push notifications. It also allows customers to use biometric authentication such as Face ID or their fingerprint to access their account on their mobile device. Using the app, customers can schedule payment, enroll in Auto Pay and view their billing and usage history back to 2017. They can also sign up for text and email bill alerts and push notifications for new bills, due-date reminders and when a payment is applied.



Above, two examples from the robust social media campaign promoting paperless billing that PUD customers responded to in great numbers. Right, a screen shot from the MySnoPUD app, which puts billing resources right at a customer's fingertips.

As great as it was to start transitioning past the pandemic, multiple initiatives were still needed to address lingering impacts such as supply-chain issues and customer arrearages. In early 2022, the PUD found out its supplier was having big issues delivering envelopes and paper. With over 230,000 customers still receiving a paper bill, a campaign was launched to encourage customers to transition to paperless billing. Thanks to these efforts, over 40,000 customers opted out of receiving a paper bill in 2022. Not only did this campaign help overcome supply-chain issues with paper and envelopes, it will also save thousands of trees and reduce costs for the PUD in the longterm.

Another lingering impact of the pandemic was customer arrearages. Since the onset of the pandemic, the PUD had been working with state and federal partners to ensure customers experiencing increased hardship due to the pandemic received assistance and maintained service. After countless hours advocating behind the scenes for additional funding for customers in need of assistance, the PUD was notified in November 2022 that the Washington State Department of Commerce had awarded it \$11.2 million in COVID relief funding authorized by the American Rescue Plan Act, passed in 2021. The money helped pay off or reduce unpaid electric bills for nearly 24,000 current and former customers.



## Finance

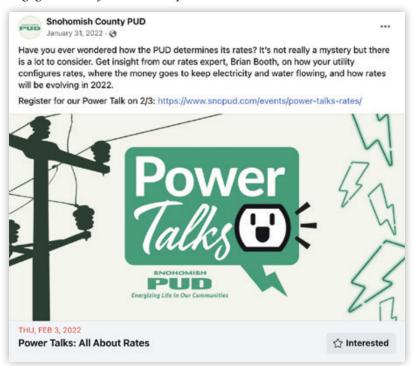
he PUD continued its mission to deliver affordable power and water to customers in 2022 throughout numerous challenges, supply-chain issues and weather events.

In December, the PUD's Board of Commissioners approved the 2023 budget for the electric, generation and Water Systems. The PUD's Electric System budget came in at \$697.9 million, an increase of approximately \$28 million from the year before. To reach its targeted operating spending number, the PUD worked to find ways to reduce the operations budget by \$15 million. This was accomplished by the hard work of many across the utility who prioritized projects and identified items that could be delayed.

In 2022, the PUD implemented its first rate increase since 2017. The increase was done in combination with a base charge that

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Above, PUD Commission Meetings are open to the public. Below, PUD staff strive to communicate rate and billing information clearly and in a timely manner. One venue for customers to engage is the utility's Power Talks series. These online sessions invite PUD customers to engage with subject matter experts.



is dependent on the size of connection the customer is using and is being implemented over the next several years. As the base charge is increased, the KWh charge will be reduced. The PUD's residential electric rate remains competitive with other Northwest electric utility rates and below the national average of 15.64 cents/kWh.

The PUD had multiple storms, including one of the largest of the last decade in November, that led to several million dollars being spent in the effort to restore power for customers. The PUD was able to rely on healthy reserves to cover these costs.

Sustained strong ratings from Moody's, Standard & Poor's and Fitch continues to help the PUD secure lower interest rates when selling bonds to raise capital for future projects. In 2022, the Electric System issued \$61 million of bonds at an average interest rate of 3.4%. The proceeds of the bond sale are being used for capital improvements in the Electric System.

The PUD's electric and generation system revenue bond rating was upgraded from AA- to AA by S&P Global Ratings. According to S&P, the rating upgrade reflects the agency's positive view of the PUD's diverse and reliable power portfolio and retail revenue base that proved resilient during the pandemic. S&P cited several key factors for the PUD's upgraded bond rating in its report, including: The PUD's largely residential retail revenue base, good customer diversity and above-average median household income give it a robust service area with economic fundamentals; a low-cost, non-carbon-emitting power supply, prudent rate-setting practices, and sound management, policies and planning;



Above, supply-chain issues led to special challenges in 2022 as items took longer to arrive or were unavailable, calling on PUD staff to plan ahead and be extra-resourceful. Below, the PUD's service territory continues to be a popular attraction for new homeowners and businesses.



rates that are generally in-line with the state average and moderate ratemaking flexibility; and current system debt that is modest and flexibility to issue additional debt.

As a not-for-profit utility, the PUD's rates are set to cover its cost of doing business. That includes money for public benefits, including fish and wildlife programs, infrastructure and reliability capital projects. By reinvesting money in the community through energy-efficiency efforts and energy-assistance programs, the utility partners with those in need.

The PUD's electric and water customer base grew by 6,000 and just over 380 customers, respectively, in 2022.

## Sustainability

he PUD continues to deliver on its strategic priority of building a sustainable future with its communities. Employees constantly look for ways to enhance, conserve, and protect natural resources while continuing to deliver essential utility services that help the utility's communities thrive.

The PUD's Environmental Affairs, Natural Resources, and Facilities teams are central to this goal, leading efforts to promote sustainable resources and practices.

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Above, a PUD Natural Resources team member uses a video camera to check a bird box at Lost Lake for an inhabitant. Below, pollinator-attracting plants take root at Woods Creek Sustainability Center thanks to volunteers.



After an intensive four-year effort, the PUD was able to launch its Environmental Learning Program in 2022. This program helps empower employees to be even better stewards of our natural world when they're working in the field and planning, designing, and permitting for future activities.

The Environmental Learning program focuses on providing employees with information to help them reduce their impact on the environment and meet regulatory requirements. Courses cover topics such as permitting essentials, the State Environmental Policy Act (SEPA), cultural resources, land disturbing activity, vegetation management and the Endangered Species Act.

The PUD continued to monitor steelhead and salmon populations on the Sultan River while supporting efforts to enhance river conditions for spawning fish. Escapement numbers for winter steelhead and Chinook for 2022, based on spawning ground



A bee house at the Woods Creek Sustainability Center. Bird and bat houses can also be found on site.

surveys last spring and fall, showed above-average counts when compared to the 10-year rolling average. While this is a positive trend, it's important to keep these numbers in the context of historical averages while recognizing that there is still a long way to go in the recovery of these species. Programs initiated in previous years on the Sultan River (such as water temperature conditioning, flow monitoring, etc.) continue to demonstrate that they are helping support fish populations even when facing situations like the 2022 drought.

Work continued to progress at the Woods Creek Sustainability Center and Food Forest, including the installation of bird and bat houses. Multiple volunteer events also took place on the property throughout the year where PUD employees and their families performed planting, pruning and harvesting tasks.

As part of the Terrestrial Resources Management Plan included in our Federal Energy Regulatory Commission (FERC) license for the Jackson Hydroelectric Project, the PUD continues to maintain six duck nesting boxes around Lost Lake. These duck boxes are designed to be used by nesting wood ducks, bufflehead ducks, hooded mergansers and two species of goldeneye ducks.

Below, a PUD fish biologist gets to know every nook and cranny of the Sultan River.



## Water

he PUD's water utility continues to provide safe and reliable drinking water to more than 23,000 homes and businesses in Lake Stevens, Granite Falls and surrounding areas.

In 2022, the water utility completed construction of the Warm Beach Water System water main replacement projects and water treatment improvements. It also completed construction of scheduled capital water main replacement projects in the Lake Stevens Integrated Water System.

Despite dealing with supply-chain issues, the water utility continued to progress toward replacing all meters with advanced meters in coordination with the PUD's Connect Up program. The \$12.4 million advanced meter project is one of the largest single capital efforts in the history of the water utility.

The water utility completed 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 connected just over 380 new customers

Above, one of the water utility's advanced meters. Below, conducting a water test.



and performed all scheduled preventative maintenance of pump stations, wells, treatment plants and reservoirs. Also, 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 2022.

## Community

oming out of the COVID-19 pandemic, the PUD quickly resumed engaging with the community by participating in numerous events. The utility participated in over 70 community events, in addition to countless Science, Technology, Engineering, Art, Math (STEAM) Nights at several local schools across the PUD's service territory.

The results of the PUD's extensive mascot poll came in and a squirrel was selected to represent the utility. In an effort to ensure it is relatable to all customers, the PUD decided to have twin squirrels as its mascot. Later in the year, their names were selected from an extensive list. The PUD looks forward to welcoming Zip and Zap to numerous events in the future.

In February, the PUD launched Power Talks – an online discussion for customers and Team PUD members about various aspects of life at the utility. The series launched with a discussion about rates and covered topics such as "Smart Planting Around Power Lines," "Make Above, the Run for Warmth kicking off in downtown Snohomish. Below, as the PUD mascot takes shape, these stuffed stand-ins made the rounds at community events. nur

RUNNING



Your Home More Energy Efficient," "Learn All About Electric Vehicles," and ended the year with a special "PUD Holiday Gift-Buying Guide" edition in December.

It was a big summer of happenings for the PUD, and the utility took part in community events nearly every weekend throughout the summer. The PUD's '36 Chevy truck was a fixture in numerous parades, and the PUD staffed booths at several community gatherings, including Kla-Ha-Ya Days in Snohomish, the Strawberry Festival in Marysville, and AquaFest in Lake Stevens, among countless others.

Long one of the PUD's biggest events for community outreach, the utility returned to the Evergreen State Fair with a booth and ARC Trailer demonstrations. For the duration of the two-week fair, the PUD staffed a booth to interact with customers, handed out PUD-themed items and talked about the amazing services the utility provides the community.

The PUD sponsored the first-ever Run for Warmth 5K/10K in Snohomish. In partnership with the Snohomish Running Club, the race raised money for the PUD's Project PRIDE program, which helps low-income customers with their energy bills. A large number of PUD employees volunteered or ran at the event, which had the highest turnout of any Snohomish Running Club event ever.

After pivoting to online learning during the pandemic with videos and real-time Zoom classes, the PUD's Education Team eagerly returned to classrooms for the first time since March 2020. The PUD recruited, hired and trained new teachers, and updated lesson plans that revolve around conservation and safety. The group works with 15 local school dis-



Above, the ARC Trailer, and its powerful safety lesson, always dazzle at community events. Below, a student makes a circuit at a STEAM event.



tricts in the PUD's service territory, as well as several private schools across Snohomish County.

The PUD's headquarters hosted two special events in December. The Holiday Lighting Exchange and the Holiday Bazaar came together to create a holiday extravaganza that benefited low-income seniors and planet Earth. Around 350 attendees and 37 vendors helped the Holiday Bazaar raise \$1,525 for the Helping Hands program, an employee-funded and run fund that directly assists low-income seniors with their electric bills.

The Holiday Lighting Exchange helped approximately 1,800 customers have a brighter, more energy-efficient holiday, while keeping inefficient holiday lights out of the landfill. To help individuals in need, 50 bags of lights were given to WA State Department of Social Health Services and a pallet of holiday lights was donated to the Volunteers of America (VOA). In addition, one and half pallets of food was collected for the VOA.

## PUD Executive Leadership Team



John Haarlow CEO/GM



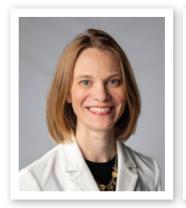
**Pam Baley** Customer & Energy Services



Melissa Collins Commission & Executive Services



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



**Kim Johnston** Government & External Affairs



**Scott Jones** Chief Financial Officer



**Allison Jubb** Human Resources



**Guy Payne** Distribution & Engineering Services



**Anne Spangler** General Counsel



Kristi Sterling Chief Information Officer



**Brant Wood** Water Utility



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



Above, the PUD's Vegetation Management team and Commissioner Wolfe gathered for a tree planting and to celebrate the utility's Tree Line USA designation on Arbor Day 2022. The PUD has been recognized for its best practices in utility arboriculture for many years running.

## **A Proud Legacy**

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 the 875,000 citizens of Snohomish County and Camano Island and the businesses that keep them thriving. The PUD is governed by three elected commissioners who represent separate districts within its service territory.



# POWERED BY RENEWABLE ENERGY ELECTRIC VEHICLE

SNOHOMISH COUNTY

#### **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**

#### **Opinions**

We have audited the 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, 2022, and the District's combined statements as of and for the year ended December 31, 2021, 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, 2022 and 2021, and the individual financial positions of the Electric, Generation, and Water Systems as of December 31, 2022, 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 Opinions**

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 opinions.

#### **Emphasis of Matter**

As discussed in Note 4 to the financial statements, the District adopted the provisions of Government Accounting Standards Board Statement No. 87, *Leases*, effective January 1, 2021. The combined financial statements for the year ended December 31, 2021, have been retroactively restated in accordance with the requirements of the new accounting standard. Our opinion is not modified with respect to this matter.

#### Responsibilities of Management for the Financial Statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vloss Adams 11P

Everett, Washington April 4, 2023

## 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, 2022 and 2021. 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 2022 was \$72 million, a \$1 million decrease from \$73 million in 2021. Combined net income increased from \$93 million in 2021 to \$94 million in 2022. This was a 0.7% increase. The increase in net income was primarily due to increased revenues from wholesale energy sales. Predominately this was from excess availability of water in the Pacific Northwest. This resulted in additional available energy from Bonneville Power Administration (BPA).

Combined net operating income increased from \$43 million in 2020 to \$73 million in 2021. The increase in net operating income was primarily due to a \$43.1 million decrease in net pension expenses as accounted for under the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

The average number of Electric System customers increased from 367,096 in 2021 to 373,127 in 2022, resulting in a 1.6% increase in 2022. New electric service connections were 6,030 in 2022, the highest recorded at the PUD, compared to 5,934 in 2021. The increase in 2022 was primarily due to an increase in new connections in residential units. The average number of Water System customers increased 1.5% from 22,774 in 2021 to 23,156 in 2022, following a 2.3% increase from 2020 to 2021.

Retail MWh sales increased 2.5% from 6,593,771 MWh in 2021 to 6,761,419 MWh in 2022, compared to a 2.2% increase from 2020 to 2021. The increase was primarily caused by a 3.4% increase in residential MWh sales and a 1.5% increase in commercial and industrial MWh sales in 2022.

Combined retail sales were \$670 million in 2022, higher than the \$647 million in 2021 and \$621 million in 2020. This was primarily the result of an increase of \$23 million in residential and commercial retail energy sales due to increased MWh sales and a rate increase implemented in April 2022. The increase in 2021 as compared to 2020 is primarily due to an increase of \$26 million in commercial and industrial energy sales.

The PUD sells surplus power into the wholesale power markets to balance resources with customer loads. Combined wholesale revenue was \$74 million in 2022 compared to \$43 million in 2021 and \$39 million in 2020. Global demand of energy remained consistent while availability of energy was diminished with respect to the prices paid for natural gas. This caused wholesale prices to increase, which contributed to the PUD's \$30 million increase in wholesale revenue from 2021. The Electric System sold \$10 million of excess transmission capacity in 2022 and \$11 million in 2021. Combined other operating revenue was \$37 million in 2022, an increase from the relatively consistent 2021 and 2020 at \$33 million.

Combined operating expenses were \$709 million in 2022. These expenses include \$335 million in combined purchased power costs, an increase of \$24 million from the prior year. This increase was driven by extreme heat in July 2022 and cold weather in December 2022. In total, combined operations expenses increased from \$188 million in 2021 to \$204 million in 2022. This increase was partially offset by decreases in bad debt expense with an overall decrease of \$15 million. Combined maintenance expenses were \$13.2 million higher in 2022 due to several storms throughout the year. Total operating expenses of \$650 million were relatively unchanged in 2021 as compared to 2020.

During 2022, the PUD's income from investing activities increased to \$7.7 million as compared to \$4.2 million in 2021,

consistent with the financial market indices. This was an 83.1% increase compared to a 45.0% decrease in 2021. The cash reserve portfolio is invested in securities and deposits authorized by Washington state statute. The portfolio is managed to reflect the PUD's current risk profile and other cash reserve policies and regulatory requirements.

Capital contributions decreased by \$1 million in 2022 to \$33 million from \$34 million in 2021, reflecting a slight decline in real estate development activities.

#### **ELECTRIC SYSTEM**

#### **Electric System Rates**

#### **General Rates**

Effective April 1, 2022, the PUD implemented a 2.1% system-wide average rate increase. This was done in combination with the implementation of a base charge that is dependent on the size of connection that the customer is using. The base charge is being implemented over the next several years; the PUD will reduce the per kWh charge as the base charge increases.

#### 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 \$234 million in 2022 and \$236 million in 2021, 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 Commission, the PUD may adjust retail electric rates to reflect BPA rate adjustments. As a result of the increased cost of power and transmission purchases from BPA, the Commission increased retail power rates 0.54% to match the higher costs effective October 1, 2021.

In December 2022, the PUD received a \$3 million credit from BPA as approved by its Board for the Reserve Distribution Clause. The PUD recorded this as other service revenue offsetting purchase power costs.

#### 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 \$124 million in 2022 and \$110 million in 2021.

Key projects in 2022 included site civil and electrical construction completed on the Edgecomb and Harbour Pointe substations and the new Sky Valley switching station. PUD installed 2.5 miles of underground feeder cable and 2.5 miles of distribution cable, as well as installation of ten submersible trayer switches. The PUD also energized the

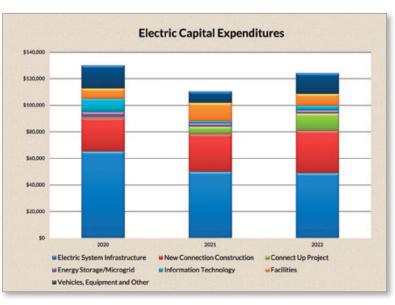


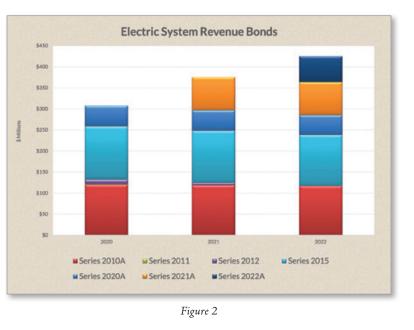
Figure 1

electrical infrastructure for a new 2.8 million square foot warehouse for Amazon in Arlington. The PUD continued its ongoing replacement of aging poles. In 2022, approximately 522 distribution poles, 54 transmission poles, and 2.6 miles of underground distribution cables were replaced.

#### 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 July 2022, the Electric System issued \$61 million of Series 2022A Revenue bonds. The new bonds, which have a final maturity of 2052, were sold at an average interest rate of 3.4%. The 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.



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 historically low long-term interest rate 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.

In conjunction with the bond sales, 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 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 \$425 million as of December 31, 2022, compared to \$375 million in 2021 and \$308 million in 2020.

#### 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 required significant effort to mitigate, causing the PUD to discontinue the MESA 2 operation. The MESA 2 system was not viable for longterm 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 state-

ments 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 Commission 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 367,000 new electric meters and 23,000 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.

The total project costs are currently estimated at \$93 million and will be primarily funded by bond proceeds. As of December 31, 2022, the PUD has expended \$27.3 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 CEF 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.

#### **GENERATION SYSTEM**

#### Henry M. Jackson Scheduled Shutdown

In March 2022, the PUD completed the largest scheduled shutdown in the history of the Henry M. Jackson Hydroelectric project which had been postponed since 2020 as a result of the COVID-19 Pandemic. The shutdown lasted 20 days. The tasks performed included replacing valve rings, removing 4 miles of fiber optic cable in the tunnel and maintenance to the powerhouse substation. All of the maintenance work performed was critical for the continued reliable operation of the Jackson project. The cost of this maintenance was approximately \$1.8 million.

#### Qualco Biofuel Generator Project

The PUD completed the installation of a new 675-kilowatt generator in September 2022. The new generator will be owned and operated by the PUD, but will be housed on property leased from Qualco Energy. The generator runs on biogas that is produced by the Qualco Energy digester and subsequently sold to the PUD.

#### 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

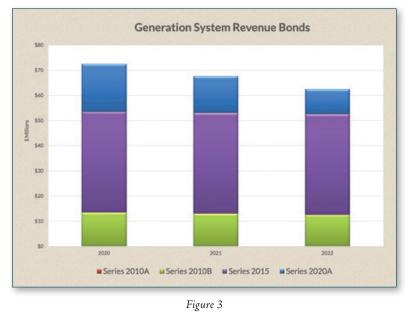
million net present value savings and will lower annual debt service costs by an average of \$747,000 per year from 2021 to 2024.

Debt levels in the Generation System have been declining in recent years. Long-term debt for the Generation System, including current maturities, totaled \$63 million as of December 31, 2022, compared to \$68 million in 2021, and \$73 million in 2020.

WATER SYSTEM

#### Water System Operating Results

Retail sales revenue for the Water System increased to \$14.3 million in 2022 from \$13.9 million in 2021, following an increase from \$13.1



million in 2020. The revenue increase in 2022 was the result of a 1.5% residential rate change, while the 2021 increase was due to an increased customer base.

Operating expenses increased slightly from \$12.7 million in 2021 to \$14.5 million in 2022, following an increase of \$0.1 million in 2020. The 2022 increase was the result of higher purchased water of \$0.4 million due to the shutdown of the Lake Stevens Well in the latter half of the year, as well as higher operations and maintenance expenses of \$1.3 million.

Water System capital contributions were \$4.9 million in 2022, \$1.2 million lower than the \$6.1 million in 2021 and \$1.5 million lower than the \$6.4 million in 2020 reflecting slower developer activity, rising interest rates and supply chain constraints.

#### 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 2022, the Water System initiated a draw of \$2.2 million from the Drinking Water State Revolving Fund (DWSRF) in support of on-going capital improvements of the Warm Beach Water Association project. Forgiveness on the DWSRF Loans, along with the continued payment of outstanding debt, have enabled the PUD to reduce Water System Debt levels. Long-term debt for the Water System, including current maturities, totaled \$10.6 million as of December 31, 2022, compared to \$13.2 million as of December 31, 2021.

#### Warm Beach Water Association Transfer

Improvements to the Warm Beach Water Association's system was funded by a combination of \$6.3 million of federal and state grants and loans through the DWSRF, \$0.8 million contributed by the Association, and approximately \$1.2 million from the PUD's Water System operating reserve. Customers of the PUD's Warm Beach water system pay a capital improvement surcharge to reimburse the operating reserve.

The PUD initiated a drawdown of \$2.2 million and \$3.1 million from the DWSRF in 2022 and 2021, respectively. Of the \$2.2 million drawdown initiated in 2022, \$0.6 million was recorded as a receivable at December 31, and subsequently received in January 2023.

#### **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)

	2022	As restated	2020	
Current Assets, Investments, and Special Funds	\$ 764	\$ 677	\$ 585	
Net Utility Plant	1,756	1,688	1,638	
Other Assets	85	166	20	
Total Assets	2,605	2,531	2,243	
Deferred Outflows of Resources	51	25	25	
Current Liabilities	157	127	119	
Long-Term Debt	525	485	400	
Other Liabilities	112	96	127	
Total Liabilities	794	708	646	
Deferred Inflows of Resources	83	163	30	
Net Investment in Capital Assets	1,361	1,299	1,226	
Restricted	124	199	174	
Unrestricted	294	187	192	
Net Position	\$ 1,779	\$ 1,685	\$ 1,592	
Operating Revenues	\$ 781	\$ 723	\$ 693	
Operating Expenses	709	650	650	
Net Operating Income	72	73	43	
Interest Charges	(14)	(16)	(19)	
Other Income and Expense	3	2	6	
Net Income (Loss) before Capital Contributions	61	59	30	
Capital Contributions	33	34	35	
Net Income	94	93	65	
Net Position – beginning of year	1,685	1,592	1,527	
Net Position	\$ 1,779	\$ 1,685	\$ 1,592	

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#### Assets

Current assets, investments, and special funds increased \$87 million in 2022 and \$92 million in 2021 as a result of an increase to inventory costs due to supply chain challenges and construction bond issuances in July 2022 and June 2021.

The PUD had between \$1.6 billion and \$1.8 billion invested in a broad range of net utility capital assets as of December 31, 2022, 2021, and 2020. Utility capital assets include five operating hydroelectric power generation plants, one biofuel generator, electric transmission and distribution lines, and substations, water transmission and distribution pipes, storage and pump station facilities, buildings, and equipment. Utility plant additions were \$142 million in 2022 and \$122 million in 2021, 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 \$11 million and \$14 million due to routine retirements in 2022 and 2021, respectively. Accumulated depreciation increased \$63 million and \$58 million related to routine plant asset activity in 2022 and 2021, respectively.

Other assets decreased \$81 million in 2022 and increased \$145 million in 2021 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.

#### Deferred Outflows of Resources

Deferred outflows of resources increased to \$51 million in 2022. This resulted from net increases of \$28 million in the other post-employment benefits (OPEB) and net pension liability deferrals in 2022.

Deferred outflows of resources remained stable at \$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.

#### Liabilities

Current liabilities increased \$30 million in 2022 resulting from higher vendor payable balances primarily from market power purchases. Current liabilities increased \$8 million in 2021 due to higher vendor payable balances, an increase in the current portion of long-term debt principal payments, and a decrease in customer deposits.

Long-term debt increased \$40 million in 2022 and \$85 million in 2021 as a result of Electric System revenue bond issuances in July 2022 and June 2021.

Other liabilities increased \$15 million in 2022 and decreased \$31 million in 2021 primarily due to actuarial valuation changes in post-employment liabilities.

#### **Deferred Inflows of Resources**

Deferred inflows decreased \$79 million in 2022 and increased \$133 million in 2021 as the result of changes in the valuation of the net pension plan deferrals.

#### **Net Position**

Net investment in capital assets increased \$62 million and \$73 million in 2022 and 2021, respectively, reflecting the growth in net utility plant. The PUD added 6,030 and 5,934 Electric System customer connections in 2022 and 2021, respectively. The Water System added 350 and 519 customer connections in 2022 and 2021, 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 decreased \$75 million in 2022 and increased \$121 million in 2021 due to changes in the actuarial valuation of a net pension asset.

Unrestricted net position is available to finance day-to-day operations without constraints established by covenants, legal requirements, or board resolutions. Unrestricted net position increased \$106 million in 2022 due to the changes in recognition of postemployment liabilities and higher cash reserves in long-term investments. Unrestricted net position decreased \$73 million in 2021.

#### **Operating Revenues**

Operating revenues increased to \$781 million in 2022, from \$723 million in 2021. Retail revenues increased \$23 million in 2022 due to increases in billed residential and commercial revenues. Wholesale revenues increased \$30 million due to increases in the sales price and power available for sale in the wholesale market.

Operating revenues increased to \$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 Expenses**

Operating expenses increased \$59 million in 2022 to \$709 million from \$650 million in 2021. In 2022 and 2021 the PUD recorded reductions in the net pension liability of \$14.4 million and \$43 million, respectively. The net impact of these reductions resulted in a \$25 million increase to operating expenses in 2022. During 2022, purchased power costs increased by \$24 million as a result of weather events that led to higher market power prices. Operating and maintenance expenses increased by \$16 million which can be attributed to repairs from significant weather events that occurred in November and December 2022.

Operating expenses were comparable in both 2021 and 2020 as a result of the 2021 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 expenses increased due to changes in supply chain costs, as well as \$12 million attributed to repairs resulting from significant weather events and emergency work.

#### **Interest Charges**

Interest charges decreased \$2 million from 2021 to 2022 and \$3 million from 2020 to 2021 as a result of declining debt levels.

#### Other Income and Expense

Other income and expense remained relatively flat in 2022 due to a decrease of \$4 million in interest income reflecting unfavorable market conditions. This was offset by an increase in nonoperating income of \$2 million as a result of a Warm Beach Loan Subsidy and FEMA storm, as well as an increase of \$2 million in other deductions as a result of the final decommissioning of the MESA 2 battery energy storage system assets in 2021.

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.

#### **Capital Contributions**

Capital contributions decreased by \$1 million in 2022 and 2021. 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.

#### **Requests for Information**

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

#### **Combined Statements of Net Position**

December 31, 2022 and 2021 (*In thousands*)

(In thousands)	2022			As restated 2021	
Assats	Electric Generation		Water	Water	
Assets	System	System	System	Combined	Combined
Current Assets:					
Cash and temporary investments:					
Cash and cash equivalents	\$ 31,667	\$ 4,723	\$ 2,926	\$ 39,316	\$ 49,294
Temporary investments	78,635	3,199	3,423	85,256	78,939
Total Cash and Temporary Investments	110,302	7,922	6,349	124,572	128,233
Accounts and other receivables, net	117,845	268	2,668	120,782	110,597
Intersystem loans receivable	3,338	-	-	_	_
Materials and supplies	46,993	-	1,636	48,629	33,487
Prepayments and other	6,974	296	161	7,431	6,870
Total Current Assets	285,452	8,486	10,814	301,414	279,187
Long-Term Investments & Special Funds:					
Long-term investments	119,685	3,903	728	124,316	97,509
Special funds - bond funds and other	306,278	13,073	19,172	338,523	300,480
Total Long-Term Investments & Special Funds	425,963	16,976	19,900	462,839	397,989
Utility Plant:					
Plant in service	2,153,992	354,851	181,325	2,690,168	2,590,107
Construction work in progress	155,155	6,230	3,731	165,116	134,289
Total utility plant	2,309,147	361,081	185,056	2,855,284	2,724,396
Accumulated depreciation	(889,383)	(162,063)	(47,562)	(1,099,008)	(1,035,934)
Net Utility Plant	1,419,764	199,018	137,494	1,756,276	1,688,462
Other Assets:					
Conservation loans and other receivables, net	3,183	_	281	3,464	9,109
Lease receivable	22,268	_	805	23,073	25,817
Intersystem loans and receivables	27,538	_	_	_	_
FERC licenses	_	13,969	_	13,969	14,511
Net pension assets	42,009	844	1,259	44,112	116,646
Other assets		170		170	139
Total Other Assets	94,998	14,983	2,345	84,788	166,222
Total Assets	2,226,177	239,463	170,553	2,605,317	2,531,860
Deferred Outflows of Resources					
Unamortized loss on refunding debt	851	1,877	_	2,728	4,086
Net pension and OPEB deferrals	46,213	1,341	1,207	48,761	20,914
Total Deferred Outflows of Resources	47,064	3,218	1,207	51,489	25,000
Total Assets and Deferred Outflows	\$2,273,241	\$ 242,681	\$ 171,760	\$2,656,806	\$2,556,860

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

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## **Combined Statements of Net Position**

December 31, 2022 and 2021 (In thousands)

(In thousands)									
			2022		As restated 2021				
Liabilities	Electric System	Generation System	Water System	Combined	Combined				
Current Liabilities:									
Accounts payable	\$ 80,301	\$ 1,011	\$ 1,850	\$ 83,162	\$ 56,445				
Accrued taxes	18,760	93	100	18,953	17,791				
Accrued interest	1,673	267	35	1,975	1,790				
Other accrued liabilities	31,683	1	5	31,689	29,893				
Customer deposits	3,191	_	9	3,200	3,360				
Current maturities of long-term debt	11,985	5,355	893	18,233	18,436				
Intersystem loans payable		3,338							
Total Current Liabilities	147,593	10,065	2,892	157,212	127,715				
Long-Term Debt:									
Revenue bonds	453,398	61,267	5,628	520,293	478,346				
Other notes payable			4,919	4,919	6,127				
Total Long-Term Debt	453,398	61,267	10,547	525,212	484,473				
Other Liabilities:									
Intersystem loans and payables	_	27,538	_	_	_				
FERC license obligations	_	13,969	_	13,969	14,511				
Net pension liability	24,368	665	638	25,671	11,285				
Lease liability	4,251	152	_	4,403	1,827				
Other liabilities	65,237	1,161	1,217	67,616	68,425				
Total Other Liabilities	93,856	43,485	1,855	111,659	96,048				
Total Liabilities	694,847	114,817	15,294	794,083	708,236				
Deferred Inflows of Resources									
Unearned FERC license contributions	_	4,000	_	4,000	4,500				
Net pension deferrals	43,907	835	1,287	46,028	121,811				
Other deferred inflows	29,707	2,769	1,042	33,518	36,837				
Total Deferred Inflows of Resources	73,614	7,604	2,329	83,546	163,148				
Net Position									
Net investment in capital assets	1,099,776	134,273	126,858	1,360,907	1,299,188				
Restricted:									
Reserve funds	745	6,378	854	7,977	8,172				
Rate stabilization	111,550	_	1,456	113,007	117,896				
Net pension assets (liabilities)	(49,160)	(1,563)	(1,254)	(51,977)	20,556				
Debt service and other	31,730	6,428	16,817	54,975	52,112				
Unrestricted	310,139	(25,256)	9,406	294,288	187,552				
Total Net Position	1,504,780	120,260	154,137	<b>1,779,177</b>	1,685,476				
Total Liabilities, Deferred Inflows									
and Net Position	\$2,273,241	\$ 242,681	\$ 171,760	\$2,656,806	\$ 2,556,860				

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, 2022 and 2021 (In thousands)

			2022									
	Electric System	Generation System	Water System	Combined	Combined							
Operating Revenues:												
Retail sales	\$ 655,785	\$ -	\$ 14,329	\$ 670,114	\$ 647,009							
Wholesale sales	73,375	28,743	769	74,144	43,423							
Other	36,161	221	408	36,790	32,978							
Total Operating Revenues	765,321	28,964	15,506	781,048	723,410							
Operating Expenses:												
Purchased power	363,509	_	_	334,766	310,693							
Purchased water	-	_	3,600	3,600	3,217							
Operations	193,586	5,415	4,594	203,596	188,233							
Maintenance	48,624	4,476	2,047	55,147	39,608							
Depreciation	60,948	5,784	3,497	70,229	68,063							
Taxes	40,732	93	775	41,600	40,424							
Total Operating Expenses	707,399	15,768	14,513	708,938	650,238							
Net Operating Income	57,922	13,196	993	72,110	73,172							
Interest Charges:												
Interest	18,842	4,752	369	22,653	20,156							
Amortization of debt related costs	(5,587)	(2,269)	(397)	(8,253)	(3,484)							
Total Interest Charges	13,255	2,483	(28)	14,400	16,672							
Other Income and Expense:												
Interest income, fair value adjustments, net	(3,115)	93	(38)	(4,369)	(840)							
Other income and expense, net	3,585	287	3,123	6,997	3,319							
Total Other Income and Expense	472	380	3,085	2,628	2,479							
Net Income Before Capital Contributions	45,139	11,093	4,107	60,338	58,979							
Capital Contributions	28,294	135_	4,934	33,363	34,037							
Net Income	73,433	11,228	9,040	93,701	93,016							
Net Position, Beginning of year	1,431,347	109,032	145,097	1,685,476	1,592,460							
Net Position, End of year	\$1,504,780	\$ 120,260	\$ 154,137	\$ 1,779,177	\$ 1,685,476							

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, 2022 and 2021 (In thousands)

		2022							
_	Electric System	Generation System	Water System	Combined	Combined				
Cash Flows from Operating Activities:									
Cash received from customers	\$731,465	\$ 28,844	\$ 15,224	\$746,790	\$668,474				
Cash payments to suppliers	(587,455)	(6,502)	(8,013)	(573,227)	(469,836)				
Cash payments to employees	(101,306)	(5,941)	(4,284)	(111,531)	(106,414)				
Cash payments for taxes	(39,202)	(107)	(781)	(40,090)	(36,876)				
Other cash received (paid)	104,413	1,551	1,347	107,311	27,520				
Net Cash Provided by Operating Activities	107,915	17,845	3,493	129,253	82,868				
Cash Flows from Capital & Related Financing Activitie	es:								
Capital construction	(118,059)	(6,234)	(6,562)	(130,855)	(107,639)				
Proceeds from debt	68,519	_	1,620	70,139	107,745				
Repayment of debt	(11,510)	(5,120)	(1,716)	(18,346)	(17,551)				
Debt issuance costs	(543)	_	_	(543)	(615)				
Interest paid on debt	(18,629)	(4,774)	(375)	(22,468)	(19,971)				
Capital contributions	26,290	135	1,724	28,149	26,994				
Intercompany loans	3,585	(3,585)	_	_	_				
Other cash received (paid)	4,443	155	660	5,258					
Net Cash Provided by (Used for) Capital &									
Related Financing Activities	(45,904)	(19,423)	(4,649)	(68,666)	(11,037)				
Cash Flows from Investing Activities:									
Sale of special funds and investment securities	314,954	16,386	23,142	354,482	288,673				
Purchase of special funds and investment securities	(398,572)	(17,924)	(21,224)	(437,720)	(390,858)				
Interest on investment securities	10,079	629	302	9,700	7,101				
Net Cash Provided by (Used for) Investing Activitie	s <u>(73,539)</u>	(909)	2,220	(73,538)	<u>(95,084</u> )				
Cash Flows from Non-Capital Financing Activities:									
Non–capital grants received	2,889			2,973	1,209				
Net Cash Provided by Non–Capital									
Financing Activities	2,889	84_		2,973	1,209				
Net Increase (Decrease) in Cash & Cash Equivalent	cs (8,639)	(2,403)	1,064	(9,978)	(22,044)				
Beginning of Year	40,306	7,126	1,862	49,294	71,338				
Cash & Cash Equivalents - End of Year	\$ 31,667	\$ 4,723	\$ 2,926	\$ 39,316	\$ 49,294				

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

## **Combined Statements of Cash Flows (continued)**

Years ended December 31, 2022 and 2021 (In thousands)

		2021		
Electric System	Generation System	Water System	Combined	Combined
h Provided by O	perating Activitie	es:		
\$ 57,922	\$ 13,195	\$ 993	\$ 72,110	\$ 73,172
60,948	5,784	3,496	70,228	68,063
(20,587)	(637)	(539)	(21,763)	(46,347)
(593)		(3)	(596)	(2,872)
(4,771)	(119)	(28)	(4,918)	(16,889)
(14,244)	(105)	(1,191)	(15,540)	(2,053)
25,071	232	1,414	26,717	7,516
4,169	(505)	(649)	3,015	2,278
49,993	4,650	2,500	57,143	9,696
\$ 107,915	\$ 17,845	\$ 3,493	\$ 129,253	\$ 82,868
Activities				
\$ 3,977		\$ 3,210	\$ 7,188	\$ 9,089
(11,390)	(276)	(405)	(12,071)	(5,046)
5,587	2,269	397	8,254	3,484
	System h Provided by Op \$ 57,922 60,948 (20,587) (593) (4,771) (14,244) 25,071 4,169 49,993 \$ 107,915 Activities \$ 3,977 (11,390)	Electric System         Generation System           h Provided by Operating Activitie           \$ 57,922         \$ 13,195           60,948         5,784           (20,587)         (637)           (593)         (4,771)           (119)         (14,244)           (105)         25,071           25,071         232           4,169         (505)           49,993         4,650           \$ 107,915         \$ 17,845           Activities         \$ 3,977           (11,390)         (276)	System         System         System           h Provided by Operating Activities:         \$ 993           \$ 57,922         \$ 13,195         \$ 993           60,948         5,784         3,496           (20,587)         (637)         (539)           (593)         (3)           (4,771)         (119)         (28)           (14,244)         (105)         (1,191)           25,071         232         1,414	Electric SystemGeneration SystemWater SystemCombinedh Provided by Operating Activities: $\$$ 993 $\$$ 72,11060,9485,7843,49670,228(20,587)(637)(539)(21,763)(593)(3)(596)(4,771)(119)(28)(14,244)(105)(1,191)(14,244)(105)(649)25,0712321,41426,7172321,41441,69(505)(649)3,0153,493\$ 129,253Activities\$ 3,977\$ 3,210\$ 7,188(11,390)(276)(405)(12,071)

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

# **Notes to Combined Financial Statements**

December 31, 2022 and 2021

## Note 1

## **Summary of Significant Accounting Policies**

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 and the microgrid system that went into service in 2022. The Generation System is composed of the PUD's Henry M. Jackson Hydroelectric Project and four smaller hydroelectric projects, and a biofuel generator that went in to service in 2022. The Water System is made up of the PUD's water distribution system.

The accompanying financial statements for 2022 include the individual and combined statements of net position for the Electric System, Generation System, and Water System, and the individual and combined statements of revenues, expenses, and changes in net position, and the individual and combined statements of 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 \$47.4 million and \$40.5 million as of December 31, 2022, and 2021, respectively. Unbilled water revenue was \$731 and \$607 thousand as of December 31, 2022, and 2021, 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.

#### **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 \$3.4 million and \$14.1 million as of December 31, 2022 and 2021, respectively. In 2022, the PUD resumed the practice of disconnecting

service for non-payment and reduced the allowance for doubtful accounts to reflect the change in accounts receivable. In December 2022, the PUD received a grant of \$11.2 million to help alleviate customer accounts in arrears.

#### 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.

#### 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 \$17.6 million and \$16.9 million at December 31, 2022 and 2021, respectively. These liabilities are presented as part of other liabilities.

#### 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, accrued liability for injuries and damages, depreciable lives of utility plant, pensions, and other contingencies. Actual results could differ from these estimates.

During 2022, a change in accounting estimate was made for the provision of outstanding damage claims. The newly adopted accounting estimate is preferable over the prior method used bringing the provision balance closer to the five-year actual average uncollectible. The impacted accounts are bad debt expense and provision for uncollectible accounts.

In 2022, the PUD implemented a new reporting module for long-term debt which improved the precision of related bond premium and discount amortization calculations. The implementation and associated change in estimate for amortization calculations resulted in a \$5 million increase in net position for the period.

#### Accounting Changes and Reclassifications

In June 2017, the GASB issued Statement No. 87 *Leases,* which establishes a standard for lease accounting based on the fact that leases are a financial exchange for the right to use an underlying asset. The PUD has adopted the provisions of GASB Statement No. 87 effective January 1, 2021, which resulted in the restatement of financial position as of December 31, 2021. (Note 4)

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 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 United States governmentsponsored enterprise agency obligations, interest-bearing demand or time deposits, municipal bonds, supranational securities, 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 observable market prices or indices. The relative type of PUD's investments at December 31, 2022 and 2021 are summarized in Table 1.

# Table 1Special Funds and Cash and Temporary Investments

	<b>Electric System</b>		Generatio	n System	Water System	
	2022	2021	2022	2021	2022	2021
U.S. Treasury Securities	56%	53%	43%	44%	38%	50%
U.S. Agency Obligations						
Federal Home Loan Bank	14%	12%	3%	—	25%	4%
Federal Farm Credit Bank	8%	7%	_	—	21%	17%
Federal National Mortgage Association	3%	5%	_	_	_	2%
Federal Home Loan Mortgage Corporation	4%	6%	_	_	_	-
Private Export Funding Corporation	-	1%	_	_	_	-
Cash and Interest–bearing Demand or Time Deposits	4%	3%	_	_	1%	1%
Washington State Local Government Investment Pool	11%	13%	54%	56%	15%	26%

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. Other PUD investments are insured by federal depository insurance or protected against loss as 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, 2022, LGIP investments include primarily U.S. Agency Securities, U.S. Treasury Securities, repurchase agreements, and interest-bearing bank deposits. 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. All funds are invested in instruments with maturities of less than five years, with the weighted average maturity 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 (in thousands):

	20	022	20	21
	Amount	Percent of	Amount	Percent of
Term	Invested	Invested Fund	Invested	Invested Fund
Less than 30 days	\$ 94,097	16%	\$ 88,520	17%
30 to 90 days	45,572	8%	35,555	7%
90 days to 1 year	136,977	23%	155,510	29%
1 year to 5 years	283,099	48%	221,938	42%
Bond reserves invested to bond maturity	27,667	5%	24,698	5%
	\$ 587,412	100%	\$ 526,221	100%

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						
	Ele	ctric	Genera	ation	Wa	ater	Combined		
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2	
U.S. Treasury Notes	\$ 301,502	\$ -	\$ 10,701	\$ -	\$ 9,993	\$ -	\$ 276,974	\$ -	
Federal Home Loan									
Mortgage Corporation	—	22,934	-	-	-	_	_	27,954	
Federal Farm Credit Bank	—	40,641	-	-	-	5,439	_	36,501	
Federal Home Loan Bank	—	77,768	-	730	-	6,460	_	57,357	
Federal National									
Mortgage Association	—	14,887	-	_	-	_	_	26,494	
Private Export Funding Corp.								2,421	
Assets valued at fair value	\$301,502	\$ 156,230	\$10,701	\$ 730	\$ 9,993	\$ 11,899	\$ 276,974	\$150,727	

### Note 3 Capital Assets

#### **Utility Plant**

Utility plant is stated at cost. The PUD's capitalization threshold for utility plant is \$5,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 77 years. When utility plant assets are retired, the original cost together with removal costs, less salvage, is charged to accumulated depreciation. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. See Table 2 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.

#### **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.

## Table 2

## **Utility Plant**

(In thousands)	(I)	n ti	bousand	ls)
----------------	-----	------	---------	-----

	2020		2021		2022				
	Ending Balance	Retirements Ending Additions & Transfers Balance		Additions	Retirements & Transfers	Ending Balance			
Electric System									
Transmission	\$ 182,706	\$ 4,395	\$ (802)	\$ 186,299	\$ 3,566	\$ (687)	\$ 189,178		
Distribution	1,317,397	72,529	(8,698)	1,381,228	62,066	(6,354)	1,436,940		
General Plant & Other	417,967	11,140	(3,644)	425,463	29,085	(3,986)	450,562		
Land & Non-depreciable assets <sup>1</sup>	74,806	649	(1)	75,454	1,861	(3)	77,312		
Plant in Service	1,992,876	88,713	(13,145)	2,068,444	96,578	(11,030)	2,153,992		
Construction Work in Progress	103,177	21,430		124,607	30,548		155,155		
Utility Plant	2,096,053	110,143	(13,145)	2,193,051	127,126	(11,030)	2,309,147		
Less Accumulated Depreciation	(784,514)	(56,383)	6,523	(834,374)	(57,638)	2,629	(889,383)		
Net Utility Plant	\$1,311,539	\$ 53,760	\$ (6,622)	\$1,358,677	\$ 69,488	\$ (8,401)	\$1,419,764		

<sup>1</sup>Plant in service includes right-to-use assets of \$4.1 million and \$2.2 million December 31, 2022 and 2021 respectively.

Generation System								
Generation/Production	\$ 295,025	\$	1,413	\$ (331)	\$ 296,107	\$ 1,940	\$ (280)	\$ 297,767
Transmission	2,811		_	_	2,811	326	(221)	2,916
Distribution	6,820		15	_	6,835	1,979	_	8,814
General Plant & Other	30,387		786	_	31,173	855	(524)	31,504
Land & Non-depreciable assets <sup>2</sup>	13,822		-	_	 13,822	 28	 _	13,850
Plant in Service	348,865		2,214	(331)	350,748	5,128	(1,025)	354,851
Construction Work in Progress	3,300		1,823	_	 5,123	 1,107	 _	6,230
Utility Plant	352,165		4,037	(331)	355,871	6,235	(1,025)	361,081
Less Accumulated Depreciation	(151,742)	(	(5,600)	 39	 (157,303)	 (5,254)	 494	(162,063)
Net Utility Plant	\$ 200,423	\$ (	(1,563)	\$ (292)	\$ 198,568	\$ 981	\$ (531)	\$ 199,018

<sup>2</sup> Plant in service includes right-to-use assets of \$0.2 million and \$0 December 31, 2022 and 2021 respectively.

Water System							
Generation/Production	\$ 9,356	\$ 45	\$ (4)	\$ 9,397	\$ 21	\$ -	\$ 9,418
Transmission & Distribution	139,001	4,550	(398)	143,153	10,421	(52)	153,522
General Plant & Other	14,207	_	_	14,207	91	(82)	14,216
Land & Non-depreciable assets	4,054	 104	 	 4,158	 	 11	4,169
Plant in Service	166,618	4,699	(402)	170,915	10,533	(123)	181,325
Construction Work in Progress	1,230	 3,330	 	 4,560	 	 (829)	3,731
Utility Plant	167,848	8,029	(402)	175,475	10,533	(952)	185,056
Less Accumulated Depreciation	(42,182)	 (3,239)	 1,164	 (44,257)	 (3,540)	 235	(47,562)
Net Utility Plant	\$ 125,666	\$ 4,790	\$ 762	\$ 131,218	\$ 6,993	\$ (717)	\$ 137,494

## Note 4 Leases

In June 2017, the GASB issued Statement No. 87 Leases, which established a standard to enhance consistency in accounting and financial reporting for leases based on the fact that leases are a financial exchange for the right-to-use an underlying asset. To comply with the statement the lessor and lessee involved in the lease agreement are required to recognize on their financial statements a lease receivable and deferred inflow of resources or a lease liability and intangible right-to-use lease asset, respectively. The PUD adopted the provisions of GASB Statement No. 87 on January 1, 2021, and restated the individual and combined statements of net position as of December 31, 2021, accordingly, to reflect the implementation of this statement as summarized below (in thousands):

	 Electric	N	Water	
December 31, 2021, balances previously reported				
Right-to-use asset	\$ —	\$	-	
Lease liability	—		-	
Deferred inflow - leases	—		-	
Lease receivable	_		-	
Restatement for adoption of GASB Statement No. 87				
Right-to-use asset	\$ 2,169	\$	-	
Lease liability	(2,169)		-	
Deferred inflow - leases	(24,363)	(1	,454)	
Lease receivable	24,363	1	,454	
As restated December 31, 2021				
Right-to-use asset	\$ 2,169	\$	_	
Lease liability	(2,169)		_	
Deferred inflow - leases	(24,363)	(1	,454)	
Lease receivable	24,363	1	,454	

The District is both a lessor and a lessee:

For leases with a maximum possible term of 12 months or less at commencement, the PUD recognizes revenue or expense based on the provisions in each contract. For all other leases (i.e., those that are not short-term) as a lessee or lessor the PUD recognizes a right-to-use asset, and lease liability or a lease receivable, and deferred inflow, respectively, in accordance with GASB Statement No. 87.

District as a lessee - The following table summarizes the balances of leased assets by major classes reported in Net Utility Plant as of December 31, 2022 (in thousands):

	December 31, 2022				
	E	lectric	Gen	eration	
Right-to-use asset - Land	\$	4,071	\$	_	
Less Accumulated amortization		242		_	
Right-to-use asset - Land, net		3,829		-	
Right-to-use asset - Building		419		161	
Less Accumulated amortization		140		9	
Right-to-use asset - Building, net		279		152	
Total Right-to-use assets	\$	4,108	\$	152	

The PUD is involved in several leases and subleases of land and buildings to perform District operations. The obligations relating to these leases have been recognized on the Combined Statement of Net Position as both a right-to-use asset and the related lease liability equal to the present value of the lease payments in each agreement payable during the contracted term. In 2022, the PUD recorded \$0.4 million as amortization and \$0.1 million as interest expense to recognize these leased assets.

All lessee activity resides within the Electric System with the exception of one Generation System lease related to the biofuel project. The seven-year lease for the biofuel project was implemented in September 2022, with future annual principal and interest payment of approximately \$30,000. As of December 31, 2022, the PUD had principal and interest requirements for active leasing activities, as follows (in thousands):

Year Ended December 31	Principal	Interest	Total
2023	\$ 283	\$ 138	\$ 421
2024	279	137	416
2025	139	137	276
2026	145	136	281
2027	151	135	286
2028-2032	292	666	958
2033-2037	145	653	798
2038-2042	372	601	973
2043-2047	752	483	1,235
2048-2052	1,311	265	1,576
2053-2054	534	17	551
Total	\$ 4,403	\$ 3,368	\$ 7,771

District as a lessor - The PUD is also involved in lease agreements as the lessor of assets such as land and pole attachments. These leases are ancillary to the PUD's mission to provide power to its rate payers. The PUD primarily leases space to telecom entities which allows them to provide services to networks.

The PUD has lessor agreements with remaining contract terms ranging from two to thirteen years. These agreements are recorded at their net present value of \$23.1 million on the *Combined Statement of Net Position*. The PUD also recognized \$4.3 million of lease income, and \$0.3 million in lease interest income recorded as other income for the year ended December 31, 2022.

The District monitors changes in circumstances that may require remeasurement of a lease. Remeasurements of leases were performed during the year ended December 2022 as a result of changes to pole attachments throughout the year.

## Note 5 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	Generatio	on System		Water	System	
	Revenu	e Bonds	Revenu	ie Bonds	Revenue Bonds		Lo	ans
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 11,985	\$ 19,969	\$ 5,355	\$ 3,206	\$ 475	\$ 263	\$ 418	\$ 56
2024	12,815	19,773	5,610	2,937	500	239	418	53
2025	14,860	19,682	1,410	2,654	525	214	418	48
2026	14,275	19,173	1,480	2,583	550	188	418	43
2027	14,695	18,678	1,560	2,505	580	161	418	38
2028-2032	81,470	83,248	9,120	11,207	2,630	337	1,524	131
2033-2037	100,230	59,340	11,765	8,556	_	_	985	63
2038-2042	83,290	32,146	15,165	5,155	-	_	736	22
2043-2047	38,170	19,705	11,065	1,125	_	_	_	_
2048-2052	53,190	7,329	_	_	_	_	_	_
Total	\$ 424,980	\$ 299,043	\$ 62,530	\$ 39,928	\$ 5,260	\$ 1,402	\$ 5,337	\$ 454

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 2022 and 2021 was \$40.2 million and \$37.1 million, respectively. Total revenues available for debt service as defined for the same periods was \$162.8 million and \$129.5 million. On December 31, 2022, annual principal and interest payments are expected to require between 23% and 25% of revenues.

Tax-exempt revenue bonds make up the majority of the PUD's long-term debt and are subject to Internal Revenue Service Code (the Code) requirements for arbitrage rebate. Rebates are calculated based on earnings on gross proceeds of the bonds that are in excess of the amount prescribed by the Code.

#### **Electric System**

A summary of principal outstanding on Electric System long-term debt follows (in thousands):

	December 31,	
	2022	2021
Series 2022A Revenue bonds, 5.0%, due 2025-2052, earliest call 2032	\$ 61,050	\$ -
Series 2021A Revenue bonds, 5.0%, due 2026-2051, earliest call 2031	78,685	78,685
Series 2020A Revenue Refunding bonds, 0.4-1.5%, due 2022-2028	46,825	48,755
Series 2015 Revenue bonds, 5.0%, due 2022-2040, earliest call 2025	121,205	123,625
Series 2012 Revenue Refunding bonds, 4.0%, due 2022	_	5,610
Series 2010A Revenue bonds, 4.8-5.6%, due 2022-2035, currently callable	117,215	118,765
Total Principal Outstanding on Long-Term Debt	\$424,980	\$375,440

In July 2022, the PUD issued \$61.1 million of Series 2022A Electric System Revenue bonds at a premium of \$7.5 million with an average interest rate of 3.4%. The proceeds from the bonds will be used to finance additions, betterments and improvements to and renewals, replacement and extensions of the Electric System.

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.

Changes in the Electric System long-term debt during the years ended December 31, 2022, and 2021, follow (in thousands):

	2020		2021			2022	
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	\$ 307,840	\$ 78,685	\$ (11,085)	\$375,440	\$ 61,050	\$ (11,510)	\$424,980
Unamortized bond premium	16,830	25,921	(3,331)	39,420	7,468	(6,434)	40,454
Unamortized bond discount	(72)		5	(67)		16	(51)
Total Debt	324,598	104,606	(14,411)	414,793	68,518	(17,928)	465,383
Less: Current maturities	(11,085)			(11,510)			(11,985)
Total Long-Term Debt	\$ 313,513			\$403,283			\$453,398

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, 2022 and 2021, the PUD held the reserve requirement of \$21.3 million and \$18.3 million, respectively, in the Electric System.

The fair value of the Electric System's long-term debt was \$447.6 million and \$458.7 million, respectively, at December 31, 2022 and 2021. 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 (in thousands):

	December 31,	
	2022	2021
Series 2020A Revenue Refunding bonds, 5.0%, due 2022-2024	\$ 9,925	\$ 14,550
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	12,620	13,115
Total Principal Outstanding on Long-Term Debt	\$ 62,530	\$ 67,650

Changes in the Generation System long-term debt during the years ended December 31, 2022, and 2021, follow (in thousands):

	2020		2021			2022	
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	\$ 72,540	\$ –	\$ (4,890)	\$ 67,650	\$ –	\$ (5,120)	\$ 62,530
Unamortized bond premiums	6,759	-	(766)	5,993	-	(1,895)	4,098
Unamortized bond discounts	(9)		1	(8)		2	(6)
Total Debt	79,290	-	(5,655)	73,635	-	(7,013)	66,622
Less: Current maturities	(4,890)			(5,120)			(5,355)
Total Long-Term Debt	\$ 74,400			\$ 68,515			\$ 61,267

The PUD is required to maintain a cash reserve for certain Generation System bonds. At December 31, 2022 and 2021, the PUD maintained the reserve requirement of \$6.0 million in the Generation System.

The fair value of the Generation System's long-term debt was \$64.9 million and \$79.3 million, respectively, at December 31, 2022 and 2021. 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 (in thousands):

	December 31,	
	2022	2021
Series 2019 Revenue Refunding bonds, 5.0%, due 2022-2031	\$ 5,260	\$ 5,715
Series 2011 Revenue Refunding bonds, 4.0-5.0%, due 2022	-	845
State of Washington Drinking Water Revolving Fund loans:		
equal principal payments plus 1.0% interest due annually through 2042	2,944	3,921
equal principal payments plus 1.0% interest due annually through 2034	1,495	1,619
equal principal payments plus 1.5% interest due annually through 2029	578	661
equal principal payments plus 1.5% interest due annually through 2027	320	384
equal principal payments plus 2.5% interest due annually through 2023		48
Total Principal Outstanding on Long-Term Debt	\$ 10,597	\$ 13,193

Changes in the Water System long-term debt during the years ended December 31, 2022, and 2021, follow (in thousands):

	2020		2021			2022	
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	\$ 7,780	\$ -	\$ (1,220)	\$ 6,560	\$ -	\$ (1,300)	\$ 5,260
Unamortized bond premiums	1,498	-	(210)	1,288	-	(445)	843
Other notes payable	3,851	3,139	(357)	6,633		(1,296)	5,337
Total Debt	13,129	3,139	(1,787)	14,481	_	(3,041)	11,440
Less: Current maturities	(1,576)			(1,806)			(893)
Total Long-Term Debt	\$ 11,553			\$ 12,675			\$ 10,547

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 2022 and 2021, the PUD initiated drawdowns of \$2.2 million and \$3.1 million respectively, to pay costs associated with acquiring and improving the Warm Beach Water System which was transferred to the PUD in 2018. Of the \$2.2 million drawdown initiated in 2022, \$0.6 million was recorded as a receivable at December 31, 2022 and subsequently received in January 2023. As of December 31, 2022, the PUD processed final loan closeout documentation related to the Warm Beach Water System loans, allowing the PUD to recognize 50% loan forgiveness, directly reducing the outstanding loan liability by \$3.1 million.

The PUD is required to maintain a cash reserve for certain Water System bonds. At December 31, 2022 and 2021, the PUD maintained the reserve requirement of \$0.4 million.

The fair value of the Water System's long-term Revenue Bonds was \$5.8 million and \$7.8 million, respectively, at December 31, 2022 and 2021. 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 6 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 2.

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

#### **General Benefits Provided**

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

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

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

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

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

	PERS Plan 1		PERS Plan 2		PERS Plan 3	
2022	\$	39	\$	13,262	\$	2,666
2021	\$	83	\$	14,081	\$	2,811
2020	\$	91	\$	14,560	\$	2,898

#### PERS Plan 1 Description

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

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1

required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

Actual Contribution Rates	Employer	Employee
September 2020 through June 2021	12.97%	6.00%
July 2021 through August 2022	10.25%	6.00%
September 2022 through December 2022	10.39%	6.00%

The PUD's contributions as reported by PERS to the plan were \$5.8 million, and \$6.4 million for the years ended December 31, 2022, and 2021, 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 average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and 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 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

Actual Contribution Rates	Employer Plan 2/3	Employee Plan 2	Employee Plan 3
September 2020 through June 2021	12.97%	7.90%	varies
July 2021 through August 2022	10.25%	6.36%	varies
September 2022 through December 2022	10.39%	6.36%	varies

The PUD's contributions as reported by PERS to the plan were \$10.0 million, and \$10.8 million for the years ended December 31, 2022, and 2021, respectively.

#### Pension Financial Statement Balances

At June 30, 2022, the PUD reported total pension assets of \$18.4 million for its proportionate share of the net pension assets and liabilities. The pension liability was \$25.7 million for PERS Plan 1 and the pension asset was \$44.1 million for PERS Plan 2/3.

At June 30, 2021, the PUD reported a total pension liability 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 net pension assets of \$116.6 million for PERS Plan 2/3.

The PUD's proportionate share of the net pension plan for PERS Plan 1 was 0.92% and 0.92% for June 30, 2022 and 2021 respectively. The PUD's proportionate share of the PERS Plan 2/3 was 1.19% and 1.17% for June 30, 2022 and 2021 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, 2022, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2021, with update procedures used to roll forward the total pension liability to the measurement date.

For the years ended December 31, 2022, and 2021, the PUD recognized a pension expense of \$6.0 million and a pension credit of \$5.8 million, respectively, for PERS Plan 1 and a pension credit of \$23.8 million and \$37.0 million, respectively, for PERS Plan 2/3.

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

	2022			2021				
	PER	S 1	PERS	2/3	PERS 1		<b>PERS 2/3</b>	
	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ -	\$ -	\$ 10,930	\$ 999	\$ -	\$ -	\$ 5,665	\$ 1,430
Net difference between pro- jected and actual investment earnings on pension plan in- vestments	_	4,254	_	32,612	_	12,522	_	97,488
Change of assumptions	-	_	24,586	6,438	_	_	170	8,284
Changes in proportion and dif- ferences between contributions and proportionate share of con- tributions	_	_	1,518	1,725	_	_	2,545	2,087
Contributions subsequent to measurement date	2,997 <b>\$ 2,99</b> 7	\$ 4,254	5,002 <b>\$ 42,036</b>		2,867 <b>\$2,867</b>		4,820 <b>\$ 13,200</b>	\$_ <u>109,289</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, 2023. 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
2022	\$ -	\$ (98)
2023	(1,800)	14,115
2024	(1,635)	(11,784)
2025	(2,051)	(7,782)
2026	1,232	(9,265)
2027 - 2028		10,074
Total	<u>\$ (4,254)</u>	<u>\$ (4,740)</u>

#### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Demographic Experience Study and the 2021 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments. Other assumptions included:

- Inflation: 2.75% total economic inflation; 3.25% salary inflation
- Salary increases: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

• OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.

The discount rate used to measure the total pension liability for all DRS plans was 7.0%. To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0% was used to determine the total liability.

The long-term expected rate of return on the DRS pension plan investments of 7.0% was determined using a building-blockmethod. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

#### Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%

#### Sensitivity of Net Pension Liability/(Asset)

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

		2022			2021	
	1%	Discount	1%	1%	Discount	1%
	Decrease (6.0%)	Rate (7.0%)	Increase (8.0%)	Decrease (6.4%)	Rate (7.4%)	Increase (8.4%)
PERS Plan 1	\$ 34.3	\$ 25.7	\$ 18.1	\$ 19.2	\$ 11.3	\$ 4.4
PERS Plan 2/3	51.9	(44.1)	(123.0)	(33.2)	(116.6)	(185.3)

#### 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 (asset) for each plan, as of December 31, is as follows (in thousands):

	Decembe	December 31, 2022		r 31, 2021
	PERS Plan 1	PERS Plan 2/3	PERS Plan 1	PERS Plan 2/3
Electric System	\$ 24,368	\$ (42,009)	\$ 10,760	\$ (110,623)
Generation System	665	(844)	243	(2,966)
Water System	638	(1,259)	281	(3,056)

#### Pension Plan Fiduciary Net Position

Detailed information about each defined benefit pension plans' fiduciary net position is available in the separately issued DRS 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 2022 and 2021, the PUD contributed \$2.4 and \$2.9 million, respectively, to the plans. Plan members receiving benefits contributed \$0.4 million in 2022 and contributed \$0.4 million in 2021.

#### 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 \$345,000 and \$354,000 towards the premium in 2022 and 2021, 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, 2021. This is the date as of which the total OPEB liability is determined and rolled forward to the reporting date of December 31, 2022. The reporting date is December 31, 2022, 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, 2022, 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	2.06% as of the measurement date of December 31, 2021
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 2022-2027
Retirees' share of life benefit- related costs	25% of projected life insurance premiums for retirees in 2022 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, 2022, the PUD's total OPEB liability for retiree healthcare was \$41.6 million, and \$5.5 million for retiree life benefits, recorded in other accrued and other liabilities. The annual payroll of active employees covered by the plan was \$70.1 million in 2022, compared to \$74.1 million in 2021.

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

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

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

HEALTHCARE		2022		
	Electric	Generation	Water	Combined
Net OPEB liability – beginning of year	\$ 39,934	\$ 961	\$ 1,004	\$ 46,302
Changes for the year:				
Service Cost	923	29	24	1,569
Interest on total OPEB liability	835	26	22	1,274
Effect of economic/demographic gains/(losses)	_	_	_	(905)
Effect of assumptions changes or inputs	224	7	6	(3,602)
Expected benefit payments	(2,290)	(71)	(60)	(2,739)
Net Changes	(308)	(9)	(8)	(4,403)
Net OPEB liability – end of year	\$ 39,626	\$ 952	\$ 996	\$ 41,899
LIFE		2022		2021
	Electric	Generation	Water	Combined
Net OPEB liability – beginning of year	\$ 5,423	\$ 141	\$ 143	\$ 4,942
Actuarial beginning of year adjustment				
Changes for the year:				
Service Cost	4	_	_	12
Interest on total OPEB liability	111	3	3	132
Effect of economic/demographic gains/(losses)	_	_	_	884
Effect of assumptions changes or inputs	32	1	1	38
Expected benefit payments	(332)	(10)	(9)	(301)
Net Changes	(185)	(6)	(5)	765
Net OPEB liability – end of year	\$ 5,238	\$ 135	\$ 138	\$ 5,707

Changes of assumptions and other inputs reflect a change in the discount rate from 2.12 percent in 2021 to 2.06 percent in 2022. 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%, as well as what the PUD's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.12%) or 1 percentage point higher (3.12%) than the current rate (in millions):

	2022				
	1% Decrease (1.06%)	Current Discount Rate (2.06%)	1% Increase (3.06%)		
Healthcare	\$ 45.9	\$ 41.6	\$ 37.9		
Life	6.1	5.5	5.0		

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

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

		2022	
	1% Decrease	<b>Current Trend Rate</b>	1% Increase
	5.50% Graded	6.50% Graded	7.50% Graded
	Down to 3.50%	Down to 4.50%	Down to 5.50%
Healthcare	\$ 40.1	\$ 41.6	\$ 43.3

#### **OPEB Financial Statement Balances**

For the year ended December 31, 2022, and 2021, the PUD recognized OPEB healthcare expense of \$1.0 million and \$1.9 million, respectively. For OPEB life insurance, the PUD recognized OPEB expense of \$0.2 million for each of the years ended December 31, 2022, and 2021. At December 31, 2022, the PUD reported deferred outflows of resources and deferred inflows of resources related to OPEB healthcare from the following sources (in thousands):

	202	22
Differences between expected and actual experience	Deferred Outflows of Resources \$ 104	Deferred Inflows of Resources \$ (403)
Changes of assumptions or other inputs	2,001	(2,205)
Total	\$ 2,105	\$ (2,608)

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:	
2023	\$ (744)
2024	203
2025	40
	\$ (501)

#### 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 \$55.08 per month into an employee's individual HRA account in January through March 2022. Effective April 2022, the PUD contributed \$56.18 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 Contribu-

tions 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 \$4 thousand and \$17 thousand in 2022 and 2021, respectively. These funds are available to the Participant following a settlement date as defined in the plan document.

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

The PUD administers a 401(k) Savings Plan effective May 1, 1985. Participation in the Plan is offered to eligible employees of the PUD as defined in the plan document. The Plan is a defined contribution plan, which provides that participants may make voluntary salary deferral contributions, on a pretax basis, up to a maximum amount as indexed for cost–of–living adjustments. In 2022, the contribution limit for employees was \$20,500. 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 January 2022, the PUD makes matching contributions in an amount equal to 100% of the first 2.5% 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 \$3.1 million and \$2.3 million in 2022 and 2021, respectively.

## Note 7 BPA Power Purchase Agreement

The PUD is a preference customer of the BPA, from which it acquired approximately 83% and 80% of its energy purchases in 2022 and 2021 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 8 Generation System Projects

The Generation System consists of the PUD's Henry M. Jackson Hydroelectric Project (Jackson Project), four smaller hydroelectric projects and one biofuel generator. In 2022 and 2021, these projects supplied 5% and 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, Washington, in Snohomish County. Completed in 2011, Youngs Creek has a capacity of 7.5 megawatts, and its FERC license expires in 2042. Woods Creek was purchased by the PUD in 2008, has a capacity of 650 kilowatts, and was upgraded by the PUD to meet current operating standards. This project is exempt from FERC licensing.

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

#### **Biofuel Project**

In September of 2022 the Generation System started operating a biogas engine generator which has a capacity of 675 kilowatts. The generator is owned and operated by the PUD. The space it occupies is leased from Qualco Energy on a lease agreement that runs through 2028. Qualco Energy blends food and agriculture waste in a digester, and sells the resulting biogas to the PUD to fuel the generator.

#### Note 9 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 \$28.6 million and \$23.7 million of power in 2022 and 2021, 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 \$30.9 million and \$34.5 million at December 31, 2022 and 2021, respectively. The Generation System recorded interest expense on these loans of \$1.3 million in 2022 and \$1.4 million in 2021.

#### Note 10 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. On December 31, 2022, 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 \$9.8 and \$10.0 million as of December 31, 2022, and 2021, respectively.

## Note 11 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.

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## **REQUIRED SUPPLEMENTARY INFORMATION** (Unaudited)

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

#### As of June 30 (In thousands)

PERS 1	2022	2021	2020	2019	2018	
Employer's proportion of the net pension liability (asset)	0.92%	0.92%	0.85%	0.88%	0.87%	
Employer's proportionate share of the net pension liability	\$ 25,670	\$ 11,285	\$ 29,903	\$ 33,889	\$ 38,769	
Employer's covered employee payroll	\$ 482	\$ 773	\$ 649	\$ 642	\$ 608	
Employer's proportionate share of the net pension liability						
as a percentage of covered employee payroll	5325.73%	1459.90%	4607.55%	5278.66%	6376.48%	
Plan fiduciary net position as a percentage of the total pension liability	76.56%	88.74%	68.64%	67.12%	63.22%	
PERS 2/3	2022	2021	2020	2019	2018	
Employer's proportion of the net pension liability (asset)	1.19%	1.17%	1.08%	1.12%	1.10%	
Employer's proportionate share of the net pension liability (asset)	\$ (44,112)	\$ (116,645)	\$ 13,864	\$ 10,915	\$ 18,707	
Employer's covered employee payroll	\$ 147,593	\$ 140,052	\$ 126,542	\$ 122,155	\$ 114,293	
Employer's proportionate share of the net pension liability (asset)						
as a percentage of covered employee payroll	(29.89)%	(83.29)%	10.96%	8.94%	16.37%	
Plan fiduciary net position as a percentage of the total pension liability	106.73%	120.29%	97.22%	97.77%	95.77%	

#### 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 thousand	ls)									
PERS 1	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contributions Contributions in relation to the	\$ 39	\$ 83	\$ 91	\$ 81	\$ 81	<b>\$</b> 71	\$ 98	\$ 124	\$ 155	\$ 152
contractually required contributions Contribution deficiency (excess)	(39) \$ -	(83)	(91) \$ -	(81)	(81) \$ -	(71) \$	(98) \$	(124)	(155) \$ –	(152)
Covered employer payroll	380	696	705	632	632	594	879	1,221	1,611	1,854
Contributions as a percentage of covered employee payroll	10.26%	11.93%	12.91%	12.82%	12.82%	11.95%	11.15%	10.14%	9.62%	8.20%
PERS 2/3										
Contractually required contributions	\$ 15,928	\$ 16,892	\$ 17,458	\$15,640	\$ 15,239	\$13,267	\$ 11,925	\$ 10,581	\$ 8,989	\$ 7,668
Contributions in relation to the contractually required contributions Contribution deficiency (excess)	<u>(15,928)</u> \$	<u>(16,892)</u> \$	<u>(17,458)</u> \$	<u>(15,640)</u> \$	<u>(15,239)</u> \$	(13,267)	(11,925)	<u>(10,581)</u> \$	(8,989) \$	(7,668)
Covered employer payroll	\$ 155,062	\$ 146,019	\$ 135,327	\$ 121,760	\$ 119,564	\$ 110,945	\$ 106,716	\$ 103,383	\$ 97,703	\$ 93,277
Contributions as a percentage of covered employee payroll	10.27%	11.57%	12.90%	12.84%	12.75%	11.96%	11.17%	10.23%	9.20%	8.22%

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

#### As of December 31 (in thousands)

		)22 ployment		2021 Post-Employment		) oyment
Total OPEB Liability	Health	Life	Health	Life	Health	Life
Service cost	\$ 976	\$ 4	\$ 1,569	\$ 12	\$ 1,198	\$ 7
Interest on total OPEB liability	883	117	1,274	132	1,704	175
Effect on economic/demographic gains/ (losses)	-	· _	(906)	884	_	_
Effect of assumption changes or inputs	237	34	(3,602)	38	4,442	653
Expected benefit payments	(2,422	) (350)	(2,739)	(301)	(2,775)	(298)
Net change in total OPEB liability	\$ (326	) \$ (195)	\$ (4,404)	\$ 765	\$ 4,569	\$ 537
Total OPEB liability, beginning	41,899	5,707	46,302	4,942	41,733	4,405
Total OPEB liability, ending	\$ 41,573	\$ 5,512	\$ 41,898	\$ 5,707	\$ 46,302	\$ 4,942
Covered employee payroll	\$ 70,135	N/A	\$ 74,130	N/A	\$ 71,826	N/A
Total OPEB liability as a % of covered employee payroll	59.28%	N/A	56.52%	N/A	64.46%	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 2022: 2.06%, 2021: 2.12%, 2020: 2.74%.

The PUD has established a fund to address the unfunded portion of future post-employment benefits. The balance of this account was \$38.2 million and \$36.3 million as of December 31, 2022 and 2021, 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,	2020_	2021_	2022
Operating Revenues:			
Sale of electric energy	\$ 651,763	\$ 667,405	\$ 722,260
Other operating revenues	32,088	32,334	36,161
Unbilled revenues	(5,300)	8,400	6,900
Total Operating Revenues	678,551	708,139	765,321
Operating Expenses:			
Purchased power	312,131	334,427	363,509
Operations and maintenance	239,235	215,636	242,210
Depreciation	57,202	58,988	60,948
Taxes	38,525	39,534	40,732
Total Operating Expenses	647,093	648,585	707,399
Net Operating Income (Loss)	31,458	59,554	57,922
Interest Charges	15,401	13,930	13,255
Other Income and Expense:			
Interest income	8,577	5,415	8,276
Net increase (decrease) in the fair value of investments	2,513	(4,857)	(11,390)
Other income and expense, net	(4,262)	3,095	3,587
Total Other Income and Expense	6,828	3,653	473
Capital Contributions:			
Cash contributions	23,003	21,424	24,317
Non-cash contributions	5,442	6,376	3,977
Total Capital Contributions	28,445	27,800	28,294
Net Income	51,330	77,077	73,434
Non-cash contributions	(5,442)	(6,376)	(3,977)
Interest charges	15,401	13,930	13,255
Depreciation	57,202	58,988	60,948
Pension & OPEB liability actuarial adjustments	(16,207)	(43,297)	(20,549)
Net increase (decrease) in the fair value of investments	(2,513)	4,857	11,390
Project termination charge	8,465	_	_
Balance Available for Debt Coverage	108,236	105,179	134,501
Parity Debt Service Costs:			
Interest	16,179	15,762	18,488
Principal	10,400	11,085	11,510
Total Parity Debt Service Costs	\$ 26,579	\$ 26,847	\$ 29,998
Parity Debt Service Coverage	4.1x	3.9x	4.5x

## Electric System Revenue and Statistical Data (Unaudited)

Years Ended December 31,	2020_	2021	2022	% Change From 2021
Retail Customers (average)				
Residential	327,475	332,746	338,130	1.6%
Commercial	33,317	34,071	34,709	1.9%
Industrial	82	76	76	0.0%
Other	202	203	211	3.9%
Retail Customers	361,076	367,096	373,126	1.6%
Megawatt-Hours Billed				
Residential	3,724,600	3,788,553	3,917,803	3.4%
Commercial	2,226,949	2,311,513	2,345,764	1.5%
Industrial	472,618	466,812	469,471	0.6%
Wholesale	2,060,403	1,512,879	1,847,108	22.1%
Other	28,465	26,892	28,381	5.5%
Megawatt-Hours Billed	8,513,035	8,106,649	8,608,527	6.2%
Revenues Billed (in thousands)				
Residential	\$ 379,219	\$ 384,362	\$ 403,146	4.9%
Commercial	196,880	204,048	208,569	2.2%
Industrial	32,972	32,564	33,188	1.9%
Wholesale	38,783	42,693	73,375	71.9%
Other	3,909	3,739	3,981	6.5%
Revenues Billed	\$ 651,763	\$667,406	\$ 722,259	8.2%
Average Retail Rate per kWh:				
Residential	\$ 0.102	\$ 0.101	\$ 0.103	2.0%
Commercial	\$ 0.088	\$ 0.088	\$ 0.089	1.1%
Industrial	\$ 0.07	\$ 0.07	\$ 0.071	1.4%
Number of Employees	1,028	1,025	1,047	2.1%
Electric Line Miles	6,581	6,608	6,652	0.7%
New Electric Service Connections	5,638	5,934	5,051	-14.9%

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

(In thousands)

(11 11 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0			
Years Ended December 31,	2020	2021	2022
Operating Revenues:			
Sale of water	\$ 13,755	\$ 14,626	\$ 15,098
Other operating revenues	368	362	408
Total Operating Revenues	14,123	14,988	15,506
Operating Expenses:			
Purchased water	2,925	3,217	3,600
Operations and maintenance	5,764	5,447	6,641
Depreciation	3,191	3,269	3,497
Taxes	754	784	775
Total Operating Expenses	12,634	12,717	14,513
Net Operating Income	1,489	2,271	993
Interest Charges	312	266	(28)
Other Income and Expense:			
Interest income	377	120	367
Net increase (decrease) in the fair value of investments	(14)	(86)	(405)
Other income and expense, net	(22)	(27)	3,123
Total Other Income and Expense	341	7	3,085
Capital Contributions:			
Cash contributions	4,273	3,425	1,724
Non-cash contributions	2,081	2,713	3,210
Total Capital Contributions	6,354	6,138	4,934
Net Income	7,872	8,150	9,040
Non-cash contributions	(2,081)	(2,713)	(3,210)
Interest charges	312	266	(28)
Depreciation	3,191	3,269	3,496
Pension and OPEB liability actuarial adjustments	(446)	(1,184)	(538)
Net increase (decrease) in the fair value of investments	14	86	405
Balance Available for Debt Coverage	8,862	7,874	9,165
Parity Debt Service Costs:			
Interest	418	381	328
Principal	1,195	1,220	1,300
Total Parity Debt Service Costs	1,613	1,601	1,628
Less: Assessment payments received Debt Service Paid from Revenues	(15) <b>\$ 1,598</b>	(5) <b>\$ 1,596</b>	(4) <b>\$ 1,624</b>
Parity Debt Service Coverage	<u>\$.5x</u>	<u>4.9x</u>	<u>φ 1302 τ</u> 5.6x
Number of Water Customers (average)	22,161	22,774	23,156
Water Sales & Purchases (thousand cubic feet)	204.000	222 504	010 010
Retail Cubic Feet Sold Wholesale Cubic Feet Sold	204,000	220,504	218,913
Total Cubic Feet Sold	<u>    29,373</u> <b>233,373</b>	<u> </u>	<u> </u>
		<i>434</i> ,003	252,590
Average Retail Water Rates (thousand cubic feet)	#2 <b>5</b> 2	to 50	*~ ~-
Residential	\$3.52	\$3.52	\$3.57
Commercial	\$3.24	\$3.24	\$3.37

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