

**New Issue: MOODY'S ASSIGNS Aa2 RATING TO CHELAN PUD'S CONSOLIDATED SYSTEM
REFUNDING BONDS. OUTLOOK REMAINS NEGATIVE.**

Global Credit Research - 25 Oct 2011

Approximately \$1.13 billion of debt securities affected

Electric Utilities
WA

Moody's Rating

ISSUE	RATING
Consolidated System Revenue Bonds, Refunding Series 2011C (Taxable)	Aa2
Sale Amount	\$165,000,000
Expected Sale Date	10/28/11
Rating Description	Revenue bonds

Moody's Outlook Negative

Opinion

NEW YORK, Oct 25, 2011 -- Moody's Investors Service has assigned a Aa2 long-term rating to Chelan County Public Utility District (District or Chelan PUD) No. 1's \$165 million of Consolidated System Revenue Bonds, Refunding Series 2011C (Taxable).

Moody's also affirmed at Aa2 the District's remaining \$963 million of outstanding bonds including Rock Island Hydroelectric Project revenue bonds, Rocky Reach Hydroelectric Project revenue bonds, Chelan Hydro Consolidated System revenue bonds and Consolidated System revenue bonds. Moody's also affirmed the Aa3 rating on the Consolidated System subordinated revenue notes. The outlook remains negative.

SUMMARY RATING RATIONALE

The Chelan PUD's Aa2 rating reflects highly competitive hydro generation, strong liquidity position close to 500 days cash on hand at year-end 2010, low retail rates, and long term contracts for more than 50% of Rocky Reach and Rock Island's output with investment grade offtakers. Additionally, the District forecasts debt reduction of at least 16% by 2015 compared to 2010 excluding Chelan PUD's contemplated accelerated debt repayment, forecasts maintenance of strong internal liquidity when excluding accelerated debt repayment, expects improvement in debt service coverage ratios starting in 2012 to near 2.0 times in 2012 and at least 2 times thereafter. Chelan PUD also has made substantial improvement in risk management including the implementation of an expansive hedging program.

That said, the District's credit quality continues to be challenged by material exposure to both wholesale price and hydrology risk given significant reliance on large wholesale power sales to meet cash flow needs and PPA offtakers that are rated lower than Chelan PUD. Moody's recognizes that Chelan has reduced expected future capital spending plans compared to its previous expectations in April 2011 primarily due to cancelling of a fiber optic build out.

The negative outlook considers heightened business risk profile given the expected large increase in wholesale exposure starting in 2012, the uncertainty in the District's ability to achieve their forecasted improvement in credit metrics and execution risk tied to sourcing new longer term hedges that ensure medium to long term revenue stability at metrics commensurate with the District's forecast. The negative outlook also considers the recent decline in forward prices that could dampen the expected improvement in financial metrics and the potential negative impact of the District's contemplated accelerated debt repayment plan on its liquidity position.

DETAILED CREDIT DISCUSSION

Chelan PUD operates a utility system that primarily generates and delivers electricity to approximately 48,100 retail customers in Chelan county (not rated), which is located in the central part of Washington state. The district benefits from ownership of three hydroelectric plants totaling 1,988 MW of capacity. The largest hydro plant is the 1,300 MW Rocky Reach facility followed by the 629 MW Rock Island plant and lastly the 59 MW Lake Chelan plant. Currently, the district sells approximately seventy percent of the power output from the District's Rocky Reach and Rock Island plants under take-or-pay contracts with investment grade counterparties. The remainder of the Rocky Reach and Rock Island's power is either used by the district to serve its customers or sold into the wholesale market. Once the existing long-term contracts expire, Chelan PUD will sell approximately 52% of the combined output of the Rocky Reach and Rock Island plants to Puget Sound Energy (Baa2/sta), Alcoa (Baa3/sta) and Douglas PUD (Aa3/sta) under long-term contracts that have take or pay type features. The District also provides wholesale fiber-optic services, water services, and waste water services.

The District's governing body is comprised of a five member independent board of commissioners who are elected under staggered four and six year terms. The next election is in 2012 for two commissioner positions.

USE OF PROCEEDS:

The proceeds from the bond offering will be used to refund certain of the Districts outstanding Consolidated System Bonds and fund the reserve account.

LEGAL SECURITY:

The Consolidated System revenue bonds are secured by a second lien on the revenues of the Consolidated System. The Consolidated System includes net revenues from the Electric Distribution System, Lake Chelan Hydro project, Fiber Optic system, Water System and Waste Water System. The Consolidated System bonds also benefits from a pledge of payments of interest and principal on affiliate debt loaned by the Consolidated System to Rock Island and Rocky Reach but not a direct pledge of the net revenues from Rock Island and Rocky Reach system. The Consolidated System revenue bonds are subordinate to the senior liens of the Chelan Hydro Consolidated System revenue bonds except for the revenues of the Fiber Optic System. The Consolidated System revenue bonds have a debt service reserve equal to maximum annual interest. The rate covenant and additional bonds test for the Consolidated System bonds is 1.25 times using other available funds and 1.00 times based only on current revenue excluding other available funds. Each bond series has its own segregated reserve and all the Consolidated System reserves are cash funded.

For description of legal security of the Chelan Hydro Consolidated System, Rock Island System, Rocky Reach System revenue bonds, please see Moody's report dated April 25, 2011.

INTEREST RATE DERIVATIVES:

The District has three interest rate swaps with a total notional value of \$89.5 million with highly rated counterparties. In March and May 2011, the District terminated two large forward interest rate swaps with a notional value of \$169.4 million related to the 2008 and 2011 swaps, reducing the current negative mark to market position to below \$20 million. The negative termination value of the swaps was around \$25 million and was funded with cash.

For an overview of Chelan's key rating factors , please see Moody's April 25, 2011 new issue report.

Outlook

The negative outlook considers heightened business risk profile given the expected large increase in wholesale exposure starting in 2012, the uncertainty in the District's ability to achieve their forecasted improvement in credit metrics and execution risk tied to sourcing new longer term hedges that ensure medium to long term revenue stability at metrics commensurate with the District's forecast. The negative outlook also considers the recent decline in forward prices that could dampen the expected improvement in financial metrics and the potential negative impact of the District's contemplated accelerated debt repayment plan on its liquidity position.

What Could Change the Rating - DOWN

Chelan PUD's rating could be downgraded if the District again demonstrated limited willingness to implement rate increases necessary to maintain a sound financial position, if financial metrics do not improve as anticipated according to the District's forecast in April 2011, if the District's total liquidity drops below levels forecasted in April 2011 or if the District does not hedge for longer tenors that ensures forecasted metrics.

What Could Change the Rating - UP

The District's rating could stabilize if Chelan PUD achieves its forecasted financial metrics and liquidity according to its April 2011 forecast, implements longer term hedging, and continues to strengthen its improved risk management.

KEY STATISTICS:

Total Restricted and Unrestricted Cash and Investments, 2010: \$419 million

Total net MWh produced, 2010: 7.74 million

Aggregate Hydro Capacity (Nameplate): 1,988 MW

Chelan Senior Consolidated System 2010 Debt Service Coverage (per resolution without available funds): 0.57 times without escrow

Subordinate Consolidated System 2010 Debt Service Coverage (per resolution without available funds): 1.5 times

Rock Island System 2010 Debt Service Coverage (per resolution): 1.0 times

Rocky Reach System 2010 Debt Service Coverage (per resolution): 1.3 times

Consolidated Debt Service Coverage Ratio, 2010 (Moody's): 1.0 times

Debt Ratio, 2010: 74%

Days Cash on Hand, 2010: 499

Average Residential Rate, 2010: 3.4 cents/kwh

DEBT STATEMENT AS OF December 31, 2010

Rock Island System Revenue Bonds \$278.7 million

Rocky Reach System Revenue Bonds: \$21.1 million

Chelan Hydro Consolidated System Revenue Bonds: \$445.4 million

Consolidated System Revenue Bonds: \$201.7 million

Consolidated System Subordinated Revenue Notes: \$82.7 million

The last rating action occurred on April 25, 2011, when Moody's downgraded the Consolidated System Notes to Aa3 and affirmed Chelan PUD's remaining bonds at Aa2 with a negative outlook.

The principal methodology used in this rating was U.S. Public Power Electric Utilities published in April 2008. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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