New Issue: **Chelan County Public Util. Dist 1, WA**

MOODY'S ASSIGNS Aa2 TO CHELAN COUNTY PUBLIC UTILITY DISTRICT'S REVENUE BONDS; STABLE OUTLOOK

CHELAN COUNTY PUD HAS $983 MILLION OUTSTANDING REVENUE BONDS

Electric Utilities
WA

Moody's Rating

ISSUE		RATING
Rock Island Hydro-Electric System Revenue Bonds, Series 2008A		Aa2
Sale Amount	$35,000,000	
Expected Sale Date	10/29/08	
Rating Description	Revenue	
Rock Island Hydro-Electric System Revenue Bonds, Series 2008B		Aa2
Sale Amount	$12,000,000	
Expected Sale Date	10/29/08	
Rating Description	Revenue	
Rocky Reach System Revenue Bonds, Series 2008A		Aa2
Sale Amount	$11,000,000	
Expected Sale Date	10/29/08	
Rating Description	Revenue	
Rocky Reach System Revenue Bonds, Series 2008B		Aa2
Sale Amount	$24,000,000	
Expected Sale Date	10/29/08	
Rating Description	Revenue	
Consolidated Revenue Notes, Series 2008		Aa2
Sale Amount	$60,350,000	
Expected Sale Date	10/28/08	
Rating Description	Revenue	

Moody's Outlook Stable

Opinion

NEW YORK, Oct 27, 2008 -- Moody's Investors Service has assigned a Aa2 long-term rating to the Chelan County Public Utility District (District) No. 1's $35 million Rock Island Hydro-Electric System Revenue Bonds, Series 2008 A (Taxable) and $8 million Rock Island Hydro-Electric System Refunding Series 2008 B. Moody's has also assigned a Aa2 rating to the $8 million Rocky Reach System Refunding Revenue Bonds, Series 2008 A and $24 million Rocky Reach System Refunding Revenue Bonds, Series 2008 B. The bonds will be priced November 19, 2008.

Moody's has also assigned a Aa2 rating to the $60,235,000 Consolidated System Subordinate Revenue Notes, Series 2008 A, which will have a bullet maturity of July 1, 2013. They will be sold the week of October 27.

Moody's has also affirmed the Aa2 rating on the district's outstanding Rock Island Hydroelectric Project revenue bonds outstanding in the amount of $274.0 million and the Aa2 rating on the district's outstanding Rocky Reach Hydroelectric Project revenue bonds outstanding in the amount of $10.2 million. In addition, we have affirmed the Aa2 rating on the district's outstanding $664,100,000 of Consolidated System revenue bonds.

The district's consolidated system purchases power from the Rock Island and the Rocky Reach systems, as an operating expense of the consolidated system, for sale to the district's retail customers; surplus power and energy is also sold on a cost of service basis by long-term contracts to investor-owned utilities and a large industrial customer and any additional surplus power is also sold at market prices in the wholesale energy market.

The Aa2 long-term rating on all the district's project bonds reflects the significant value of low-cost power from the hydro-electric facilities; the strong management of generation risks; and the district's healthy balance sheet and strong financial performance. The rating also incorporates regulatory risk as the district's largest generation source, Rocky Reach Hydroelectric Facility is in the Federal Energy Regulatory Commission (FERC) relicensing process.

USE OF PROCEEDS:

The Rock Island Hydro-Electric System Revenue Bonds, Series 2008 A and B will refund outstanding 1955 Rock Island Bonds and finance various capital improvements.

The Rocky Reach System Revenue Bonds, Series 2008 A and B will refund outstanding 1968 Series Rocky Reach Revenue Bonds and refund a portion of outstanding senior 1998 A Consolidated System Bonds, the proceeds of which had been loaned to the Rocky Reach system.

The Consolidated Revenue Notes are being issued for cash flow for the district's ongoing capital improvement program.

LEGAL SECURITY:

The current offering of Rock Island revenue bonds is governed under a new master resolution and secured by a pledge of net Rock Island system revenues subordinate to the lien on the senior and prior lien Rock Island Revenue bonds. No new senior or prior lien bonds outstanding and the liens are to be closed. Pledged revenues include all revenues, rates and charges from the district's operation of the Rock Island system. The revenue from the sale of output from Rock Island can be commingled with output from the other electric utility systems of the district. The rate covenant requires bond charge coverage of 1.0x; there is no additional bonds test; and there is a weak debt service reserve requirement which is equal to maximum annual interest payable.

The Rocky Reach System revenue bonds are secured by a pledge of revenues subordinate to the lien on prior Rocky Reach bonds. Upon issuance of the 2008 A bonds and the defeasance of the refunded prior lien bonds, the Prior Lien Rocky Reach Bond resolution will be terminated. The district has covenanted not to issue additional prior lien Rocky Reach bonds. Pledged revenues include all revenues, rates and charges from the District's operation of the Rocky Reach system; the rate covenant requires a 1.0 x bond coverage test and there is a weak debt service reserve requirement of maximum annual interest

The Consolidated System notes are secured by a subordinate lien on the revenues of the consolidated system. The consolidated system includes the net revenues of district's electric distribution enterprise, the Lake Chelan Hydroelectric Project, the water system, the wastewater system, and the fiber optic system. The rate covenant for the junior (operating lien) is 1.25 times using other available funds and 1.00 times current revenue excluding other available funds. The additional bonds test is 1.25/1.00 times. The debt service reserve requirement is equal to maximum annual interest.

INTEREST RATE DERIVATIVES:

The district has five interest rate swaps with total notional value of $231,034,000 and agreements with highly rated counterparties. The swaps are floating to fixed rate with two of the swaps related to the 2008 B Consolidated System refunding bonds, and the other three are forward-starting swaps, and will take effect upon issuance of other refunding bonds. The snapshot October 20, 2008 termination value of the swaps, while negative, could be adequately managed by the district's strong liquidity position.

STRENGTHS

* The Rocky Reach and Rock Island Projects are two of the lowest cost power resources in the U.S., even in low water years, and the hydroelectric facilities have had strong operating records

* The district's retail rate of 3.2 cents/kwh is among the lowest in the U.S.

* Take-or-pay power sales agreements for a large portion of the Rocky Reach and Rock Island projects

* Conservative budgeting and forecasting practices result in sound financial operations

* License for Rock Island does not expire until 2028

* District's risk management practices and strong internal financial liquidity position the utility well for industry risks such as low water or volatility of the regional wholesale power market

CHALLENGES

* Single fuel risk; low water conditions impact amount of hydroelectric production (Based on snow pack amounts and run off, the Columbia River flows at Grand Coulee for 2008 are expected to be normal).

* Rocky Reach operating license expired in 2006. Project relicensing with the Federal Energy Regulatory Commission (FERC) is a general credit risk since the outcome of the relicensing process cannot be predicted

* 2008 Biological Opinion under appeal by environmental groups. Should certain features of the biological opinion be implemented, there could be a reduction in generation output

* Meeting state renewable energy mandate

* Managing the marketing of surplus energy in wholesale energy market after 2012

MARKET/COMPETITIVE POSITION: LONG TERM FUNDAMENTAL CREDIT STRENGTH IS THE LONG-TERM POSITION OF ITS LOW COST HYDRO SYSTEM

Fundamentally, the most important credit factor is Chelan's low cost hydro system and the district's easy access to transmission of the energy to retail and wholesale customers. The low cost is significantly due to the major capital investments that were made to the hydro facilities 30 to 40 years ago. The district owns and operates two major hydroelectric projects and one smaller project with 1,972 MW of combined generation capacity. Rocky Reach (1,300 MW) and Rock Island (624MW) are on the Columbia River, and Lake Chelan (48 MW) is nearby. In 2007, 9.5 million MWh of power was generated by district facilities at an average cost of $15/MWh. Rock Island's five year (2003-2007) average cost of production was $24/MWh; at Rocky Reach it was $12/MWh; and Lake Chelan, $12/MWh. The district's cost of power has historically been well-below regional and national averages. Even in critical (low) water years the forecasted district's cost of power is not more than $25.00/MWh. By contrast the Bonneville Power Administration's (BPA) Priority Firm rate in 2007 averaged $31.00/MWh. Under almost all conditions, such as during 2000-2001 energy crises, the three hydroelectric projects are sufficient for the district to meet its retail load requirements.

The district has several large wholesale customers, including investor-owned utilities and a subsidiary of Alcoa, which purchases electricity pursuant to firm power sale take-or-pay contracts that have been extended past 2011. Moody's believes the very competitive prices charged for the capacity and energy ensures wholesale customer retention. Sixty-nine percent of the power output from the district's hydro-generation facilities is sold by take-or-pay contract, including to Puget Sound Energy (PSE, 41% of allocated capacity), Alcoa (15%), Portland General Electric (8%), PacifiCorp (3%) and Avista (2%), with the balance sold by the district's distribution system to retail customers (30%). The new power sales contracts which become effective in 2012 shift more of the available power to the district with the district managing 47.8% of total capacity versus the existing 30.2% which will require the district to soundly manage its wholesale energy sales activity.

An important consideration regarding these take-or-pay contracts is that any loss of any take-or-pay contracted load or of industrial load would allow the district to remarket that low cost power in the regional wholesale energy marketplace (including California), earning the margin between the low cost of the generation and market prices. Power purchasers also do not have the right of first refusal for any capacity that might become available upon expiration of the existing contracts. Under the Rocky Reach Power Sales Contracts, the non-defaulting parties have an obligation to take up to an additional 25% of their original share upon default by one of the purchasers. Any remainder above that amount would be available to the district and could be sold at market prices.

In February 2006, the district executed a new long term power sales contract with PSE. Deliveries under the new contract will commence upon the expiration of the existing power sales contracts for the Rocky Reach and Rock Island Projects on November 1, 2011 and July 1, 2012, respectively. The contract is scheduled to terminate in 2031. Under the contract, PSE will purchase an amount equal to 25% of the combined energy and capacity from both the Rocky Reach and Rock Island Projects in exchange for payment by PSE of its proportionate share of operation and maintenance, debt service and other costs. The contract was approved by FERC in March 2006. Alcoa signed a new take-or-pay contract with the district representing 26% of the capacity of both Rocky Reach and Rock Island with expiration in 2028.

Moody's believes that Chelan's management has put in place the power marketing skills needed to ensure that the district can take advantage of the margins between its low cost structure and the market. The district has a formal power risk management policy and oversight process which is annually reviewed to ensure appropriate safeguards are in place.

DISTRICT'S HYDRO HAS PROVEN RESILIENT UNDER ADVERSE CONDITIONS; WHILE ENVIRONMENTAL RISKS DO EXIST, DISTRICT HAS CONTINUED TO MANAGE THEM WELL

Chelan PUD clearly has one of the lowest cost structures of any U.S. electric utility. The resiliency of the fundamental strength of the hydro-based system was tested in 2001 amidst the second worst water year on record and the dysfunction of the wholesale energy market that registered average energy prices for the first six months of 2001 in the $200/MWh range.

While the hydro strengths are clearly evident, hydroelectric project relicensing with the Federal Energy Regulatory Commission (FERC) is a general credit risk that affects all Northwest hydro-based utilities since the outcome of the re-licensing process cannot be predicted. It should be noted, however, that over the past 25 years, no license extension application has been denied. The Rocky Reach Project license expired in June 2006 and is currently undergoing regulatory review while operating on annual license. No competing license applications have been filed. The district does expect the license to be renewed in 2009.

Numerous environmental challenges have taken place to the Biological Opinion rendered under the Endangered Species Act. The most recent 2008 Biological Opinion was appealed with briefings in court due by December 2008. The worst case impact if some of the features of the 2008 Biological Opinion are implemented is a reduction in output or changes in timing of storage releases and resulting energy generation which could affect the unit cost of generation at both Rocky Reach and Rock Island.

The district currently anticipates spending in the $380 to $500 million range in relicensing related costs over fifty years which would be the term of the new license.

Whether or not there will be further requirements that could increase the district's capital costs beyond what is included in its current forecast remains uncertain and some additional costs are possible. The district has included in its projections the cost of the fish bypass system and other environmental mitigations at Rocky Reach. Importantly, the district has achieved an agreement with federal and state agencies in implementing the habitat conservation plan (HCP) focusing on salmon and steelhead that inhabit the mid-Columbia River.

Relicensing by FERC is not required for Rock Island until December, 2028. The district received its 50 year license for the Lake Chelan Project on November 6, 2006.

FINANCIAL PERFORMANCE/ FINANCIAL POSITION: CONSISTENT RECORD OF SOUND FINANCIAL LIQUIDITY AND A STRONG ENERPRISE RISK MANAGEMENT PROGRAMS

An important credit strength is the district's sound financial record with satisfactory margins providing for the maintenance of reserves and ongoing internal financing of capital requirements. Average debt service coverage during 2003-2007 as defined under the new consolidated system resolution was 1.81 times by net revenues and 4.04 times including other available revenues as allowed under the resolution. Fiscal 2007 debt service coverage ratios was 2.18. The debt service coverage on the Rock Island and The Rocky Reach bonds was 1.01x and 1.3 x respectively.

Approximately two-thirds of the outstanding consolidated system bonds were issued for the benefit of the two major hydroelectric projects and are repaid via loan payments by those systems.

Overall rate flexibility is significant since the district's retail rates are substantially below the national average. The district's 2008 residential rates averaged 3.2 cents/kwh, while the national average residential rate was over 9 cents/kwh. The district sets rates without external regulatory approval and approved a 5% rate increase for fiscal 2008.

Moody's believes that the district's maintenance sound risk management practices and of sound financial liquidity mitigates the revenue risks associated with a low water as evidenced in 2001. Over the last five years the district has maintained an average of $340 million in unrestricted reserves and in 2007 this figure was a substantial $381.1 million. For the consolidated system, days cash on hand was 654 and net working capital as calculated by Moody's is strong at 179.1% of annual operating expenses. The district's forecasted financial operations reflect a continuation of these sound financial results. Projected debt service coverage through 2012 of the current offering and the senior lien bonds is expected to average 2.08 times using net revenues, and 4.40 times when adjusting for other available revenues. The district also has targeted a floor of $121 million of available operating cash over the forecasted period.

CAPITAL PROGRAM: MAJOR CAPITAL NEEDS ARE MANAGEABLE

The district's debt ratio is above the median for U.S. public power utilities that own generation.

The district's capital plan is projected at $400 million cost during 2008-2012 with a significant amount of the funding for Rock Island modernization. The district anticipates new bond issues of approximately $26 million in 2009 and $52 million in 2011, primarily for Rock Island modernization. For any future bonds for Rocky Reach relicensing, these likely would be issued under the 2008 resolution for Rocky Reach project debt, not bonds on parity with the current offering.

Outlook

Moody's has a stable credit outlook on the district's bonds given its low cost of power, limited exposure to the volatile wholesale energy power market, significant rate flexibility and sound financial results including its maintenance of comfortable reserves.

What Could Change the Rating - DOWN

The ratings could face downward pressure if the district encounters significant unanticipated capital needs, and challenges in its Rocky Reach relicensing application.

What Could Change the Rating - UP

The ratings could rise if the district successfully completes its Rocky Reach relicensing application without encountering significant additional costs and if financial margins and liquidity are maintained at current levels.

KEY INDICATORS

Service area estimated population: 71,200

Consolidated System, 2007

Average power supply cost: $15.00/MWh

Average residential retail rate: 3.2 cents/kwh

Consolidated System Debt service coverage per bond ordinance; 2007: 2.18x

Rocky Reach Debt service Coverage, 2007: 1.1 x

Rock Island Debt Service Coverage, 2007: 1.3x

Net working capital as % of gross revenue:2007: 179.1%

Days cash on hand, 2007: 654

Debt ratio: 73.6%

Rocky Reach Project, 2007

Type of facility: 11 turbine run-of-the-river hydroelectric dam

Nameplate capacity: 1,300 MW

Average power supply cost: $12.00/MWh

Rock Island Project, 2007

Type of facility: 18 turbine run-of-the-river hydroelectric dam

Nameplate capacity: 624 MW

Average power supply cost: $24.00/MWh

Lake Chelan Project, 2007

Type of facility: 2 turbine hydroelectric dam

Nameplate capacity: 48 MW

Average power supply cost: $11.00/MWh

New Alcoa net purchase of Rock Island and Rocky Reach, signed in 2008, delivery of output in 2011/2012 :26%

DEBT OUTSTANDING

Rock Island Hydroelectric System Bonds: $273.9 million; rated Aa2

Rocky Reach Hydroelectric System Bonds: $10.2 million, rated Aa2

Consolidated System Bonds (1995 Resolution), net of refunding: $490.1 million, rated Aa2

Consolidated System Bonds (2007 Resolution), net of refunding: $174.7 million, rated Aa2

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