



Mission: To provide sustainable, reliable utility services that enhance the quality of life in Chelan County.

PUD PROFILE

Chelan County PUD owns and operates one of the nation's largest nonfederal, customer-owned hydroelectric generating systems.

Hydropower from the District's three dams supplies clean, renewable, affordable energy to local customers and is delivered to utilities that serve customers across the Pacific Northwest.

For decades, Chelan PUD's three dams have demonstrated what's best about public power and local control. Together the dams can generate nearly 2,000 megawatts of power at their peak. In 2013, they produced 9.5 million megawatt hours of affordable, emission-free electricity.

CHELAN COUNTY PUD STRENGTHENS FINANCIAL POSITION WITH ADDITIONAL DEBT PAY DOWN

Another \$72 million in long-term debt was paid on July 1, bringing total debt down to about \$735 million, reaching this year's goal of an \$80-million reduction. Part of the payment closed out the District's lowest-rated bond lien, issued during the market turmoil of 2008-2009. Putting the District's financial house in order was a top priority in the current strategic plan adopted by PUD commissioners in 2010. Strong finances now, and those forecast in the future, are the cornerstone of conversations with customer-owners and the community to determine the PUD's future direction.

COMMISSIONERS RECOGNIZE ADVANTAGES OF LONG-TERM REPAIRS TO FOUR LARGEST UNITS AT ROCKY REACH DAM

Chelan County PUD commissioners agreed to long-term repairs for the four largest units at Rocky Reach Dam to restore the moveable turbine blade capability and make other repairs expected to extend the life of the equipment for at least another 30 years. The investment is expected to increase value for PUD customer-owners.

The decision came following consideration by board members of results from nearly a year of analysis on options for future operation of units C8-11, the largest of the 11 turbine-generators at Rocky Reach Dam. A team of engineers and other District employees provided the information as part of regular updates to the board on the large unit repairs.

The turbine blades on the four large units were welded into fixed position late last year and earlier this year as an interim step to return them to service after a crack was discovered in the stainless steel servomotor shaft of unit C10 last September. PUD crews also found more damage to the C10 turbine as they prepared for interim repairs. The four units have similar design.

Restoring adjustable blade capability is important to enhance power generation and assure continued successful fish passage at Rocky Reach Dam. The repairs also will result in reduced future major maintenance, saving the time and expense of another unit outage.

Overall cost including design, engineering and repairs is forecast at \$42 million to \$45 million over six years. These costs address a multitude of repair and enhancement opportunities identified through extensive engineering analysis and observation.

There is insurance for portions of the damage and lost revenue, and power purchasers will pay about half the remaining cost. Costs to Chelan County PUD are estimated at \$12 million to \$15 million. The work is expected to generate \$12 million to \$63 million in value to PUD customer-owners as a return on the investment. The investment helps achieve the goal of being responsible stewards of the hydropower assets. No impacts to PUD electric rates or plans to continue to pay down debt are expected as a result of the District paying its share.

Commissioners approved a contract with Voith Hydro Inc. for up to \$29.6 million for a portion of the work. PUD crews will do some of the work where it offers the best value for customers. The contractor has worked closely with PUD employees to provide original design information and documents and offer its global expertise in evaluating options for the short- and long-term repairs. Plans are to do the long-term repairs on one unit a year starting in 2015 through 2019.

PUD REACHES ANNUAL CONSERVATION TARGET IN SIX MONTHS

The District takes the energy-saving targets, under the state's Energy Independence Act (also known as I-937,) as a minimum target, not a goal. These savings are beneficial for not only program participants, but also for all customers since the energy that is saved is sold on the wholesale market, helping to support low, stable electric rates. There has been a great response by customer-owners to the rebates offered by Chelan PUD on energy efficient appliances, heat pumps, windows, insulation and LED lighting.

The two-year target for the District is 2.08 average megawatts (aMW). By the end of June, the PUD had achieved 1.18 aMW – well above the 1.08 aMW target for all of 2014. The savings so far this year are enough to power about 400 Chelan County homes.

Residential customers are making good use of appliance rebates and lighting upgrades. Industrial customers also are actively participating in lighting upgrades, and many cold storage facilities are installing energy-saving upgrades.

Commissioners agreed to expand the 2014 appliance rebate program by adding another \$180,000 to maintain the program into 2015.

FINANCIAL HIGHLIGHTS

For the nine months ended September 30, 2014, Chelan County PUD recorded a change in net position of \$68.3 million, a decrease in earnings of \$4.5 million from the same period in 2013. The decrease in net earnings is primarily due to an increase in purchased power costs that were not fully offset by the increase in wholesale sales. The additional power purchases were due to a combination of balancing resources and load forecasts, early forecasts of below average river flows and anticipated potential needs as a result of the Rocky Reach large unit turbine repairs and the Wanapum reservoir drawdown in response to the fracture at our neighbor Grant County PUD's Wanapum Dam.

As of September 30, 2014, combined unrestricted cash and investments totaled \$240.9 million compared to \$257.4 million from the same period in 2013. The \$16.5 million decrease in unrestricted reserves is primarily attributable to the District's aggressive debt repayment program partially offset by the District's positive operating results. While short-term cash and investment balances were down, contributing to the decrease in Current Assets, this was more than offset by the increase in long-term investments that is reflected in the \$44.8 million increase in Other Assets. The District is holding longer term investments as a result of changes in investment strategies. The \$25.4 million increase in noncurrent restricted assets is due to debt reduction and capital recovery charges collected from power purchasers under the power sales contracts offset somewhat by the use of construction funds.

Current liabilities decreased \$47.3 million from the prior year due primarily to a decrease in the current portion of long-term obligations as a result of changes in regularly scheduled repayments of bond principal on existing debt combined with a scheduled \$29.0 million maturity of 5-year notes in July 2014.

Long-term debt decreased by \$38.1 million due to scheduled repayments of bond principal and maturity of the 5-year notes, combined with the early retirement of the 2004C bonds and the partial defeasance of the 2009A Rock Island Environmental Enhancement bonds. The reduction in long-term debt resulting from these repayments is partially offset by the decrease in current portion of long-term obligations discussed in the previous section. Reduced debt leverage supports the District's financial policies, customer-owner priorities, strong credit rating and long-term financial sustainability.



Kelly Boyd
 Chief Financial Officer/
 Chief Risk Officer

CONDENSED COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Unaudited)

Nine months ended September 30, 2014

(in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	9 Months Ended 09/30/14	9 Months Ended 09/30/13
OPERATING REVENUES	\$ 68,106	\$ 79,316	\$ 10,200	\$ 233,713	\$ 6,418	\$ 12,826	\$ (111,126)	\$ 299,453	\$ 268,652
OPERATING EXPENSES	43,946	40,333	5,444	217,189	-	11,128	(111,126)	206,914	164,327
NET OPERATING INCOME	24,160	38,983	4,756	16,524	6,418	1,698	-	92,539	104,325
OTHER INCOME (EXPENSE) (2)	(10,370)	(19,361)	(3,345)	2,724	4,383	(1,175)	-	(27,144)	(33,706)
CAPITAL CONTRIBUTIONS	-	395	-	2,514	-	-	-	2,909	2,233
CHANGE IN NET POSITION	\$ 13,790	\$ 20,017	\$ 1,411	\$ 21,762	\$ 10,801	\$ 523	\$ -	\$ 68,304	\$ 72,852

CONDENSED COMBINING STATEMENTS OF NET POSITION (Unaudited)

September 30, 2014

(in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	09/30/14	09/30/13
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES									
TOTAL CURRENT ASSETS	\$ 9,198	\$ 11,279	\$ 3,320	\$ 98,178	\$ 7,926	\$ 10,327	\$ -	\$ 140,228	\$ 191,129
NET UTILITY PLANT	325,011	315,698	93,458	299,902	-	27,571	-	1,061,640	1,074,507
RESTRICTED ASSETS - NONCURRENT	40,788	70,221	48	18,657	23,181	3,904	-	156,799	131,367
OTHER ASSETS	7,047	20,756	5,187	135,785	40,705	11,209	(15,580)	205,109	160,274
DEFERRED OUTFLOWS OF RESOURCES	-	3,139	-	-	8,849	-	-	11,988	20,294
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 382,044	\$ 421,093	\$ 102,013	\$ 552,522	\$ 80,661	\$ 53,011	\$ (15,580)	\$ 1,575,764	\$ 1,577,571
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION									
CURRENT LIABILITIES	\$ 22,259	\$ 34,149	\$ 5,641	\$ 17,250	\$ (12,213)	\$ 26,254	\$ -	\$ 93,340	\$ 140,622
INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT	96	(379)	(302)	4,734	-	(4,149)	-	-	-
LONG-TERM DEBT	203,772	349,329	68,639	13,731	34,881	24,998	-	695,350	733,468
UNEARNED REVENUES	9,764	10,177	-	89,227	9,727	-	(15,580)	103,315	109,991
OTHER LIABILITIES	-	507	8,195	18,500	-	-	-	27,202	26,957
TOTAL LIABILITIES	235,891	393,783	82,173	143,442	32,395	47,103	(15,580)	919,207	1,011,038
DEFERRED INFLOWS OF RESOURCES	145	26,972	-	1,320	1,826	-	-	30,263	27,689
TOTAL NET POSITION	146,008	338	19,840	407,760	46,440	5,908	-	626,294	538,844
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	\$ 382,044	\$ 421,093	\$ 102,013	\$ 552,522	\$ 80,661	\$ 53,011	\$ (15,580)	\$ 1,575,764	\$ 1,577,571

ELECTRIC	2014	2013
As of September 30		
Number of Customers	49,421	48,799
Number of Residential Customers	36,917	36,338
YTD Average Residential Rate (Cents/kWh)	3.23	3.23

POWER GENERATION (MWh) (000)	2014	2013
9 months ended September 30		
Lake Chelan	289	325
Rocky Reach	4,879	5,043
Rock Island	2,046	2,400

HYDRO PRODUCTION COST/MWH GENERATED (\$/MWh)	2014	2013
9 months ended September 30		
Lake Chelan	\$ 29	\$ 24
Rocky Reach	11	11
Rock Island	29	23

NOTES TO CONDENSED STATEMENTS

(1) Intra-District transactions are eliminated.

(2) Consists primarily of investment income and interest expense on long-term debt.

Public Utility District No.1 of Chelan County (Chelan County PUD) has prepared condensed financial statements in accordance with generally accepted accounting principles. Condensed financial statements should be read in conjunction with the notes to the financial statements included in Chelan County PUD's Annual Report as of December 31, 2013. This information is provided for general information. Not all the information is intended for nor should it be relied upon for making investment decisions by current or prospective investors.