







CHELAN COUNTY P.U.D.
"OWNED BY THE PEOPLE WE SERVE"
ROCK ISLAND DAM











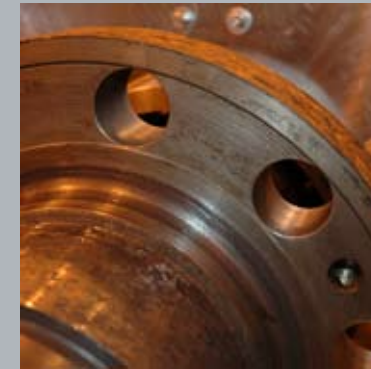
Commissioners' message



Board of Commissioners from left: Werner Janssen, Bob Boyd, Norm Gutzwiler, Ann Congdon and Gary Montague

Step into a PUD commissioner's office for a personal chat about 2005, and you'll discover each of us proud of the collective growth and strength of commitment that developed as the year unfolded.

Two of us were newly elected, taking our seats in January alongside three veterans. After 12 months together, we can look back on a year that saw greater openness, an upgrade in a key financial rating (see Page XX),



development of a progressive long-term power sales contract with the PUD's largest utility customer and continued success in managing surplus power for valuable financial support that spreads to all PUD operations.

Among the most significant accomplishments was how the five of us worked together to write a new Mission and Vision Statement early in the year, then later translated it into 13 strategic actions for our Balanced Scorecard. We have agreed on key areas of leadership and policy that need greater focus as we continue to be a premier public utility. Strategic planning will be center stage as

MISSION

To safely provide utility services that enhance the economy and quality of life in Chelan County.

VISION

To be a premier public utility, highly valued and trusted to:

- Focus on the customer
- Protect and enhance our resources
- Maintain local control
- Bring innovation to reality
- Be a great place to work!

we welcome a new general manager in 2006. The selection process began in 2005 with extensive public outreach inviting people to comment at more than half-a-dozen public meetings and in e-mails to board members on the qualities desired in a new manager.

A proposed power sales contract with Puget Sound Energy unveiled near the end of 2005 reflects the hard work and commitment of previous PUD commissioners who established firm principles through eight years of negotiating. We applaud our general counsel for leading the negotiation effort.

The board continued its investments in a wholesale fiber-optics network that promotes economic development for the region, in modernizing the vital hydroelectric components needed to generate power at our dams and in managing natural resources to reflect local insight and regional benefit.

We remain confident that public power is the best answer for the long-term needs of our customer-owners and our employees. We pledge to continue the legacy.

We have agreed on key areas of leadership and policy

Parks are a powerful draw



Lush, green and clean is what visitors say after they have experienced the beauty of Chelan County PUD's 14 parks. These parks, developed over a 17-year period by the PUD offer opportunities that range from full hook-up camping at 56-acre Beebe Bridge Park to a quiet walk along the riverfront in Wenatchee or Chelan.

More than 3 million people visit these parks each year. With 300 days of sunshine visitors come from all over the Northwest to relax and play. Chelan County PUD parks are a perfect location for family reunions, community picnics, special events and the farmers market. Because of the good weather and a prime location in the center of the state, sports enthusiasts travel from the west and east to meet for softball, fast-pitch and soccer tournaments. In addition, jogging, biking,

More than 3 million people visit these parks each year.

swimming and kayaking are enjoyed all year long.

A signature park for Chelan County PUD is the beautifully landscaped grounds and Visitor Center at Rocky Reach Dam. Recent

Visitor Center renovations have enhanced the experience of watching adult fish swim up the fish ladder, understanding the newly constructed fish bypass pipe, exhibits of power generation and a museum, unlike any other, that shows the history of electricity on the Columbia River. Three

hundred students from local elementary schools attended Kids Kamp at Rocky

Reach Park and Visitor Center last spring where hands-on experiences brought the excitement of science to each student.

Chelan County PUD enjoys working with local communities located next to its parks. As demand increases for park facilities and new recreational opportunities emerge, the PUD, works with community members to determine ways to address demands, while continuing to preserve and protect the admired character of each park.

In 2005, the PUD was involved in community park planning in the towns of Manson and Entiat. In addition, Chelan County PUD is working closely with the City of Wenatchee as its plans for the Wenatchee Riverfront continue to develop.

In 2005
264,903 people attended events in our parks
27,039 people used the picnic shelters
 There was an event scheduled in PUD parks everyday from March 27 to October 29.

Employees

Generating success

Chelan County PUD employees are skilled, professional and motivated.

Whether planning new transmission lines to serve our growing population or modernizing a 70-plus-year-old hydroelectric project to make more power with the same amount of water, our employees generate powerful success.

Chelan County PUD has a heritage of service. A half-century ago the visionaries delivered affordable power to those who otherwise could not afford it - and it changed lives.

Fast forward to today. We offer more than clean, renewable hydropower. Insight into community development led the PUD to broaden its reach. The District now delivers drinking water, created an award-winning solar and wind power program and a fiber-optic network.

Under the current collective bargaining agreement between the District and Local No. 77 International Brotherhood of Electrical Workers bargaining unit workers received a 3-percent pay increase in 2005. The agreement runs through July 31, 2006.

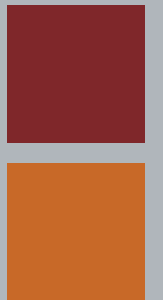
There were 688 employees on the active roster at the end of the year. District employees worked 1,336,181 hours during 2005. The District's total regular and overtime pay was \$42 million, an increase of about \$2 million from 2004.

We're successful because of our well-trained workforce. They are an asset to the District and to the community. Helping employees improve their skills and prepare for advancement is vital as experienced employees retire. In 2005, 14 employees completed the District's nationally recognized "Leadership from Within" year-long program.

We're successful because of the strength of our well-trained workforce. They are an asset to the District and to the community.

PUD employees are eager to share their knowledge. Some 650 fourth-graders, our future-customer owners, are invited to Rocky Reach Dam every spring for a day of learning in an unforgettable setting, supported by more than 40 PUD employee volunteers.

Service isn't limited to our customer relationships. District employees raise money to fight cancer, care for homeless animals, support scholarships and to help families here and around the globe.



Notes to basic financial statements cont.

Years ended December 31, 2005 and 2004

term credit rating of any two nationally recognized statistical ratings organizations at the time of purchase, limited to no more than 30% of the qualifying portfolio and no more than \$5,000,000 invested in a single banker's acceptance; 6) commercial paper having received the highest short-term credit ratings of any two nationally recognized statistical ratings organizations at the time of purchase, limited to no more than 25% of the qualifying portfolio and no more than 5% of the total assets invested with a single issuer; 7) bonds of the State of Washington or any local government in the State of Washington, which bonds have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency; 8) the State Investment Pool; 9) mutual funds having received one of the four highest credit ratings of a nationally recognized rating agency, and money market funds as authorized under the laws of the State of Washington, limited to 10% of the qualifying portfolio; 10) and any other investment permitted under the laws of the State of Washington.

Concentration of Credit Risk

The District's investment policy requires that no more than 50% of the District's total investment portfolio be invested in a single financial institution or government-sponsored corporation. Investments in an individual issuer of commercial paper or bankers' acceptances are limited to no more than 5% of the District's total investment portfolio.

As of December 31, 2005 and 2004, more than 5% of the District's total investment portfolio was invested with each of the following issuers:

| Issuer | Percentage of Portfolio Credit Rating | Percentage of Portfolio | |
|--|--|-------------------------|------|
| | | 2005 | 2004 |
| Federal National Mortgage Association | AAA | 39% | 48% |
| Federal Home Loan Mortgage Association | AAA | 26% | 11% |
| Federal Home Loan Bank | AAA | 23% | 13% |

NOTE 3: UTILITY PLANT

Utility plant is stated at original cost, which includes both direct and indirect costs of construction or acquisition, including an allowance for funds used during construction (AFUDC) for major non-hydro system projects. The District charges the cost of repairs and minor renewals to maintenance expense and the cost of renewals and replacement of property units that meet the District's capitalization threshold to utility plant. The cost, less net salvage, of property units retired is charged to accumulated depreciation. The District's capitalization threshold is \$5,000. As the District constructs various major projects, costs accumulate in construction work in progress and are capitalized to utility plant after the projects have been completed and placed into service.

Provision for depreciation of electric utility plant of the Rocky Reach and Columbia River-Rock Island Hydroelectric Systems placed in service prior to January 1, 2003, (other than transportation equipment, recreation and certain fish hatchery facilities) is computed using the sinking fund method and is based upon the estimated service lives of the various classes of property. Service lives range from 10 to 100 years. Average service lives and annuity factors utilized to determine the annual provisions are analyzed periodically and prospectively adjusted as a change of estimate.

Provision for depreciation of transportation equipment, recreation and certain fish hatchery facilities and assets placed in service after January 1, 2003, of the Hydro Systems and property, including contributed property, of Utility Services, and property of the Lake Chelan and Internal Service Systems is computed using the straight-line method by applying rates based upon the estimated service lives of the related plant, ranging from 5 to 93 years.

| | December 31, 2004 | Additions | Reductions | December 31, 2005 |
|-------------------------------|----------------------|------------------|--------------------|----------------------|
| Hydroelectric generation | \$ 978,764 | \$ 18,084 | \$ (13,867) | \$ 982,981 |
| Transmission | 85,018 | 1,863 | - | 86,881 |
| Distribution | 155,268 | 7,174 | (35) | 162,407 |
| General plant | 92,970 | 6,953 | (1,215) | 98,708 |
| Intangible | 1,641 | - | - | 1,641 |
| Telecommunications | 20,313 | 11,211 | - | 31,524 |
| Water | 36,481 | 2,538 | (27) | 38,992 |
| Wastewater | <u>10,791</u> | <u>5</u> | <u>-</u> | <u>10,796</u> |
| | 1,381,246 | 47,828 | (15,144) | 1,413,930 |
| Construction work in progress | 16,621 | 57,650 | (46,894) | 27,377 |
| Accumulated depreciation | <u>(361,520)</u> | <u>(34,724)</u> | <u>14,807</u> | <u>(381,437)</u> |
| | <u>\$ 1,036,347</u> | <u>\$ 70,754</u> | <u>\$ (47,231)</u> | <u>\$ 1,059,870</u> |

| | December 31, 2003 | Additions | Reductions | December 31, 2004 |
|-------------------------------|----------------------|------------------|--------------------|----------------------|
| Hydroelectric generation | \$ 966,058 | \$ 12,728 | \$ (22) | \$ 978,764 |
| Transmission | 83,124 | 3,685 | (1,791) | 85,018 |
| Distribution | 148,651 | 6,704 | (87) | 155,268 |
| General plant | 80,590 | 12,873 | (493) | 92,970 |
| Intangible | 1,641 | - | - | 1,641 |
| Telecommunications | 10,884 | 9,429 | - | 20,313 |
| Water | 33,362 | 3,120 | (1) | 36,481 |
| Wastewater | <u>13,427</u> | <u>189</u> | <u>(2,825)</u> | <u>10,791</u> |
| | 1,337,737 | 48,728 | (5,219) | 1,381,246 |
| Construction work in progress | 21,445 | 43,446 | (48,270) | 16,621 |
| Accumulated depreciation | <u>(333,172)</u> | <u>(32,210)</u> | <u>3,862</u> | <u>(361,520)</u> |
| | <u>\$ 1,026,010</u> | <u>\$ 59,964</u> | <u>\$ (49,627)</u> | <u>\$ 1,036,347</u> |

Plant assets include land of \$69.1 million and \$68.6 million as of December 31, 2005 and 2004, respectively.