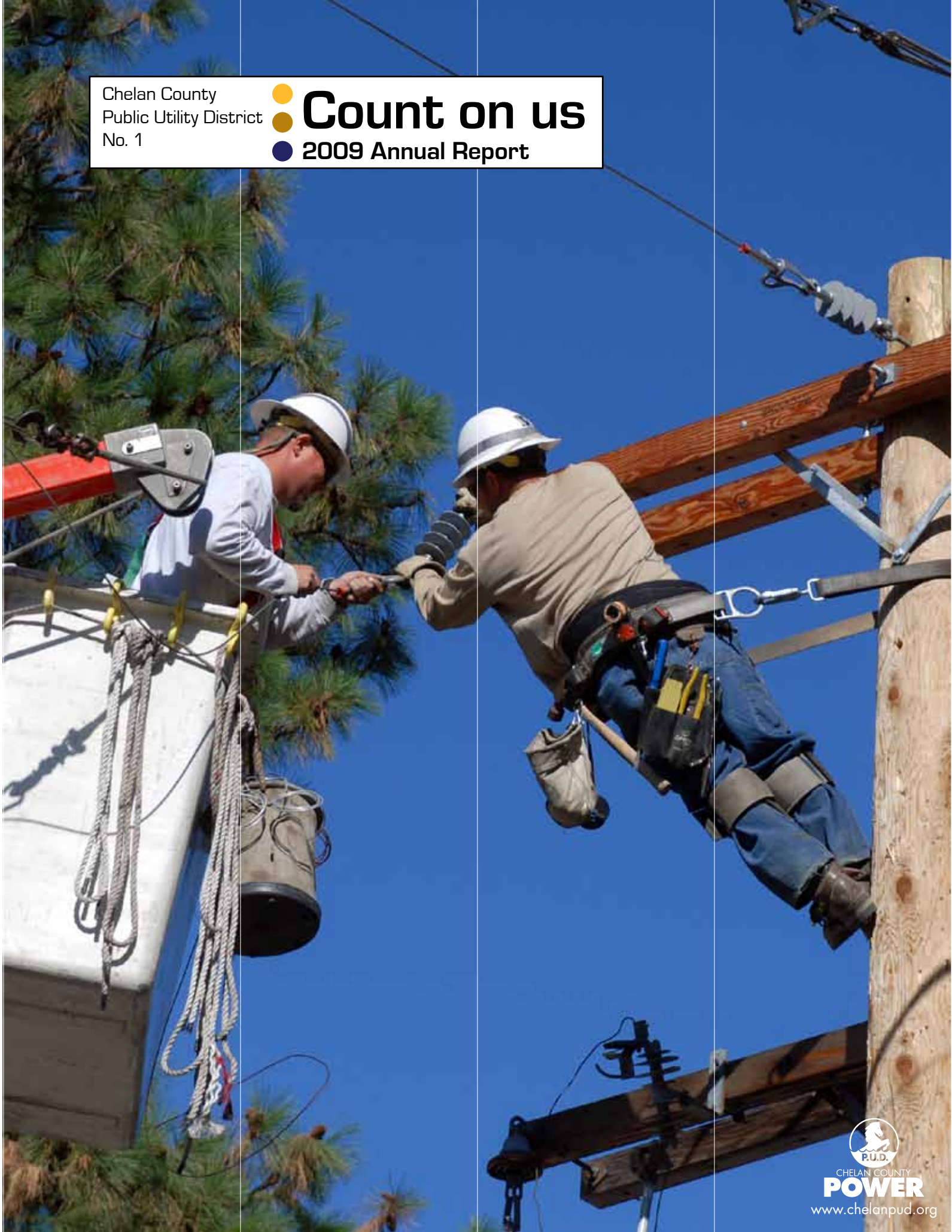


Chelan County
Public Utility District
No. 1

 **Count on us**
2009 Annual Report





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Mission:

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

Vision:

To be a highly regarded 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!

Values:

Service, Respect, Innovation, Honesty, Integrity, Teamwork and Operational Excellence

Cover photo:

PUD line crews switch phases and replace a power pole in Leavenworth. Journeyman Dan Kulm is in the bucket and apprentice lineman Brad Whitehall is on the pole.

About us:

Chelan County PUD was created by a vote of the people in 1936 and delivered its first power in 1947. It is owned by the people it serves and is governed by a locally elected five-member Board of Commissioners. The general manager uses the policies and guiding principles set by the commissioners to operate a utility system that includes water, sewer and wholesale fiber-optic services in addition to generating and delivering electricity to more than 47,000 retail customers in the county and utilities that serve customers across the Pacific Northwest.

Building on our strengths for the long term

Chelan County PUD has built an impressive record of reliable service, care for the environment and affordable rates in its 73 years. Careful management of our hydroelectric resources has provided a powerful benefit for local customer-owners and for nearly 7 million people served by our wholesale power purchasers across the Northwest.

While those resources – both physical and financial – may have seemed infinite, we know that it takes a delicate balance to meet all the responsibilities of a full service utility like Chelan County PUD.

Financially, that balance has depended on adequate snowfall to feed rivers that supply the “fuel” for making clean, renewable hydropower and on a healthy economy to support a strong market for surplus power and provide good returns on invested funds. Historically, returns on surplus power sales closed the gap between what it costs to deliver electricity, water and sewer service to local customers and what this public utility charges in retail rates. But conditions change, and local control gives us the flexibility to



Rich Riazzi
General manager

respond. Strategic planning identified the financial risk of facing reduced water supply and low surplus power prices in the same year. When it became clear that would happen in 2009, we responded quickly with contingency plans that trimmed about \$27 million in costs. Decisions to delay or eliminate projects in 2009 were balanced against the priority of providing reliable service by keeping our dams and power lines in good working order and meeting our responsibility to protect fish, wildlife and the environment.

Chelan County

PUD will face similar decisions for the foreseeable future.

We have a strong plan in place for the short-term and will continue to seek even more efficient ways of providing affordable and reliable utility services into the future. One way to bring more financial stability is to temper the risk our utility faces from large swings in power prices and uncertainty surrounding how much snow will fall in the mountains each winter. How we capitalize on opportunities to reduce volatility is a key topic in a new round of strategic planning.

As a first step, the District researched the expectations and values of customer-owners. We reached out to the community through focus

groups, one-on-one interviews with opinion leaders and a broad phone survey. As in the past, customer-owners told us they want low rates and reliable service. They prefer smaller, gradual rate increases (if necessary) rather than significant changes from year to year. They also told us they don't want to use electric rate revenue to close the operating gaps for water and wastewater services or to support continued build-out of the wholesale fiber-optic network.

We'll be talking more in 2010 with customer-owners about the future of the PUD as we prepare strategic options to be considered by our Board of Commissioners.

As we approach 2011-2012, when long-term power-sales contracts expire, we will be deciding how to deal with future power sales and how best to manage the tremendous hydropower assets that have been passed to us by the insightful previous leaders of this historic PUD. Even as we prepare for the future, we must recognize our employees for the innovative work done in 2009, which made it possible to meet priorities even as staff was reduced and budgets cut.

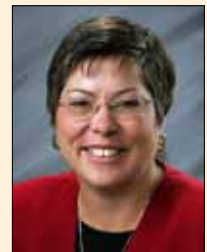
Chelan County PUD was better prepared than most utilities to navigate the tough financial conditions of 2009. As we head into 2010, the next round of strategic planning will provide the roadmap for sustaining the legacy of service and reliability of this utility for generations to come.



John Janney
Chief Financial Officer/
Chief Risk Officer/Finance
executive manager



Joe O. Jarvis
Operations Group
executive manager



Carol Wardell
General counsel/
Legal group executive
manager



Wayne Wright
District Services Group
executive manager

Calendar Year	2004	2005	2006	2007	2008
Rocky Reach System					
Operating Expenses (1)	\$ 33,102	\$ 35,015	\$ 40,009	\$ 41,938	\$ 44,201
Debt Service: (2)					
Hydro Issues	1,579	1,564	1,575	1,564	1,553
Consolidated System Loans	22,551	22,501	33,277	33,814	34,680
Other Revenues (3)	(2,015)	(570)	(3,399)	(4,498)	(4,795)
Total Power Cost (4)	\$ 64,207	\$ 57,496	\$ 71,807	\$ 72,818	\$ 75,639
Net Power Delivered (000 MWh) (5)	5,565	5,530	5,947	6,247	5,564
Cost in \$/MWh	\$ 11	\$ 12	\$ 12	\$ 12	\$ 14
Plant Factor (5)	46%	49%	52%	55%	49%
Availability Factor	98%	97%	96%	98%	98%
Average River Flow (000 CFS) (6)	94	101	111	111	103
Rock Island System (7)					
Operating Expenses (1)	\$ 34,296	\$ 33,285	\$ 36,074	\$ 35,430	\$ 38,715
Debt Service: (2)					
Hydro Issues	22,636	22,594	22,581	22,577	22,594
Consolidated System Loans	12,442	12,401	12,965	12,435	16,335
Other Revenues (3)	(3,498)	(3,451)	(4,055)	(3,198)	(3,026)
Total Power Cost (4)	\$ 65,876	\$ 64,829	\$ 67,565	\$ 67,244	\$ 74,618
Net Power Delivered (000 MWh) (8)	2,586	2,686	2,854	2,796	2,721
Cost in \$/MWh	\$ 25	\$ 24	\$ 24	\$ 24	\$ 27
Plant Factor (5)	47%	49%	52%	51%	50%
Availability Factor	96%	98%	98%	93%	94%
Lake Chelan Project (9)					
Operating Expenses (1)	\$ 4,136	\$ 3,422	\$ 3,378	\$ 3,498	\$ 3,426
Debt Service: (2)					
Consolidated System Loans	2,108	2,501	1,892	2,336	3,816
Other Revenues (3)	(382)	(468)	(298)	(663)	(1,090)
Total Power Cost (4)	\$ 5,862	\$ 5,455	\$ 4,972	\$ 5,171	\$ 6,152
Net Power Delivered (000 MWh)	448	359	454	459	405
Cost in \$/MWh	\$ 13	\$ 15	\$ 11	\$ 11	\$ 15
Plant Factor (5)	107%	85%	108%	109%	96%
Availability Factor	95%	94%	100%	99%	100%
Combined Hydro Cost in \$/MWh	\$ 17	\$ 16	\$ 16	\$ 15	\$ 18

- (1) Does not include depreciation expense.
- (2) Based on accrual debt schedules.
- (3) Primarily interest income that reduces power costs.
- (4) Non-GAAP, may not be comparable with similarly titled other District metrics.
- (5) Net power delivered as a percentage of rated capacity for the year.
- (6) Annual average Columbia River flow measured at Rocky Reach System in thousands of cubic feet per second (000 CFS).
- (7) Years 2004 and 2005 had been previously restated to include coordination exchange and pond transfers.
- (8) After minor sales to operators' cottages and adjustments for encroachment and Canadian Treaty deliveries.
- (9) Years 2004 and 2005 had been previously adjusted to reflect an understatement of net power delivered.