

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

## PUD PROFILE

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

Hydropower from the District's three dams supplies clean, renewable, affordable energy to our customer-owners and others across the Pacific Northwest.

The locally owned dams can generate nearly 2,000 megawatts of power at their peak. Nearly 30 percent of the output is used to meet retail electric demand (including surplus sales) and support utility services in Chelan County. Another 16 percent is sold by contract to Alcoa's Wenatchee aluminum smelter, supplying a portion of the power needs of the plant that provides important family-wage jobs. The balance is delivered throughout the Pacific Northwest to long-term power purchasers Puget Sound Energy, Avista, PacifiCorp, Douglas County PUD and Portland General Electric.

## REVENUE BONDS REMARKETED

In June 2009, the District converted \$92.3 million of variable rate Consolidated System Revenue Bonds, Series 2008B (AMT) to non-AMT status, as allowed by the American Recovery and Reinvestment Act (ARRA). This conversion will allow the District to benefit from the expected reduction in interest expense as a result of the typical spread between AMT and non-AMT bonds.

As part of the conversion, three bond rating agencies - Fitch Ratings, Moody's Investor Service and Standard & Poor's Rating Services - reaffirmed the District's AA+, AA2 and AA ratings. Fitch Ratings and Standard & Poor's affirmed a stable outlook. Moody's changed its outlook to negative based on "the likely lower than originally expected wholesale revenues over the next several years, the limited rate increase taken by Chelan PUD to offset lower merchant cash flows, and negligible hedges for 2010 and onward to minimize the volatility of wholesale revenues. The negative outlook also considers the likely decline in Chelan PUD's credit metrics and significant reserves over the next several years." Moody's also recognized the District's fundamental strengths of low-cost hydro generation, low rates and relatively high levels of cash liquidity.

## ROCK ISLAND HYDRO MODERNIZATION

After a successful year of testing the first generating unit to be modernized in the original powerhouse at Rock Island, PUD commissioners approved an order to move forward with a second unit. Lessons learned in modernizing the first unit will improve power production even more than originally expected. An increase of approximately 10 percent in production has been seen with the first modernized unit. We expect similar or better production increases with the second unit. The contract for the second unit upgrade is estimated at about \$18.5 million. The unit will go offline in June 2010, and is expected to be back in service in April 2011.

## LAKE CHELAN HYDRO MODERNIZATION

PUD commissioners also approved changes in the modernization schedule at the Lake Chelan Project that will remove the second generating unit from service beginning in December 2009 and have it back in service by the end of April 2010. The change will cost more right now, but it is expected to benefit the District in the long run by having the more efficient power unit available earlier to generate more power from the same amount of water. Work on modernizing the first generating unit and related systems is being completed this year.

## ECONOMIC FACTORS

The District continues to monitor challenges due to recessionary pressures combined with declines in wholesale power sales revenues as a result of an unusual combination of low wholesale energy prices and below-average snowpack. In response to the strain on the PUD's 2009 budget, the District implemented contingency plans and cut approximately \$27.4 million from planned 2009 spending. In addition, a 9-percent electric rate surcharge became effective May 1, 2009, and will remain in effect for up to 12 months to bolster revenues and partially offset the impact of below-average runoff forecasts, declining wholesale energy prices and lower interest income on investments.

## FINANCIAL HIGHLIGHTS

As of June 30, 2009, Chelan County PUD recorded a loss before capital contributions of \$7.0 million, a decrease in earnings of \$11.7 million from the same period in 2008. The decrease is due primarily to lower wholesale power sales compared to 2008, combined with lower yields earned on investments. The decrease in wholesale power sales revenue is due primarily to significantly lower energy prices in the wholesale market, as well as below-average snowpack.

As of June 30, 2009, Utility Services' unrestricted cash and investments totaled \$166.6 million.



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Executive Manager-Finance/Risk  
CFO-CRO

**CHELAN COUNTY  
PUBLIC UTILITY DISTRICT NO. 1  
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CHELAN COUNTY  
**POWER**

www.chelanpud.org

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

Six months ended June 30, 2009

(in thousands)

	Rocky Reach	Columbia River- Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra- District Transactions (1)	6 Months Ended 06/30/09	6 Months Ended 06/30/08
<b>OPERATING REVENUES</b>	\$ 36,475	\$ 38,482	\$ 5,088	\$ 63,117	\$ -	\$ 7,636	\$ (47,492)	\$ 103,306	\$ 118,349
<b>OPERATING EXPENSES</b>	29,577	25,784	2,084	70,884	-	7,364	(47,492)	88,201	94,654
<b>NET OPERATING INCOME</b>	6,898	12,698	3,004	(7,767)	-	272	-	15,105	23,695
<b>OTHER INCOME (EXPENSE) (2)</b>	(8,693)	(12,788)	(2,449)	2,882	(523)	(487)	-	(22,058)	(18,956)
<b>CAPITAL CONTRIBUTIONS</b>	-	-	-	974	-	-	-	974	3,510
<b>CHANGE IN NET ASSETS</b>	\$ (1,795)	\$ (90)	\$ 555	\$ (3,911)	\$ (523)	\$ (215)	\$ -	\$ (5,979)	\$ 8,249

**CONDENSED COMBINING BALANCE SHEETS (Unaudited)**

June 30, 2009

(in thousands)

ASSETS	Rocky Reach	Columbia River- Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra- District Transactions (1)	06/30/09	06/30/08
<b>CURRENT ASSETS</b>	\$ 6,774	\$ 4,140	\$ 2,132	\$ 133,518	\$ 62	\$ 12,465	\$ -	\$ 159,091	\$ 130,001
<b>RESTRICTED ASSETS - CURRENT</b>	10,657	36,382	11,727	28,796	31,169	3,813	-	122,544	124,850
<b>TOTAL CURRENT ASSETS</b>	17,431	40,522	13,859	162,314	31,231	16,278	-	281,635	254,851
<b>NET UTILITY PLANT</b>	388,557	310,023	79,784	276,970	-	33,111	-	1,088,445	1,026,281
<b>RESTRICTED ASSETS - NONCURRENT</b>	7,085	12,076	8,078	19,834	23,299	2,627	-	72,999	73,992
<b>DEFERRED CHARGES &amp; OTHER ASSETS</b>	7,055	6,920	2,157	63,995	187	7,963	-	88,277	117,048
<b>TOTAL ASSETS</b>	\$ 420,128	\$ 369,541	\$ 103,878	\$ 523,113	\$ 54,717	\$ 59,979	\$ -	\$ 1,531,356	\$ 1,472,172
<b>LIABILITIES AND NET ASSETS</b>									
<b>CURRENT LIABILITIES</b>	\$ 5,728	\$ 7,658	\$ 3,695	\$ 2,953	\$ 15,406	\$ 16,526	\$ -	\$ 51,946	\$ 54,555
<b>INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT</b>	5,771	1,997	1,788	4,770	(15,479)	1,153	-	-	-
<b>LONG-TERM DEBT</b>	291,117	426,071	76,543	83,527	49,959	36,444	-	963,661	925,921
<b>DEFERRED REVENUES</b>	-	-	-	111,941	-	-	-	111,941	89,000
<b>OTHER LIABILITIES</b>	-	197	8,379	-	-	-	-	8,576	8,317
<b>TOTAL LIABILITIES</b>	302,616	435,923	90,405	203,171	49,886	54,123	-	1,136,124	1,077,793
<b>TOTAL NET ASSETS</b>	117,512	(66,382)	13,473	319,942	4,831	5,856	-	395,232	394,379
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	\$ 420,128	\$ 369,541	\$ 103,878	\$ 523,113	\$ 54,717	\$ 59,979	\$ -	\$ 1,531,356	\$ 1,472,172

**ELECTRIC**

As of June 30

	2009	2008
Number of Customers*	47,754	45,478
Number of Residential Customers*	35,449	34,250
YTD Average Residential Rate (Cents/kWh)	3.15	3.10

\*Increase includes addition of Cashmere electric system.

**POWER GENERATION (MWh)**

12 months ended June 30

	2009	2008
Lake Chelan	389,336	398,407
Rocky Reach	5,375,941	5,744,383
Rock Island	2,639,980	2,673,864

**HYDRO COST/MWH GENERATED (\$/MWh)**

12 months ended June 30

	2009	2008
Lake Chelan	\$ 21	\$ 14
Rocky Reach	14	13
Rock Island	29	26

**NOTES TO CONDENSED STATEMENTS**

(1) Intra-District transactions are eliminated.

(2) Consists primarily of Investment Income and Interest Expense on long-term debt.

Chelan County Public Utility District No.1 (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, 2008. 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.