



**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. About 20 percent of the output is used to meet retail electric demand 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 sold on the wholesale market or delivered throughout the Pacific Northwest to long-term power purchasers Puget Sound Energy, Avista, PacifiCorp, Douglas County PUD and Portland General Electric.

### CHELAN RIVER FISH WORK RECEIVES NATIONAL HONOR

The District was honored in April by the National Hydropower Association (NHA) as one of three Outstanding Stewards of America's Waters (OSAW) for 2010. At ceremonies in Washington, D.C., the District was recognized for its work on the one-of-a-kind Chelan River Habitat Restoration and Enhancement Project. The \$16 million project completed last year as part of the new 50-year operating license for the Lake Chelan Hydro Project restores year-round flows to the Chelan River, adds four acres of new spawning and rearing habitat at the lower end of the river and provides additional water from a new pump station at key times of the year for steelhead and salmon spawning. In comments submitted as part of the award application, the director of the state's Central Regional Office of Ecology said, "Ecology is pleased and proud to have been a partner and not just a regulator in this important project. Restoring the lower Chelan River and riparian habitat will allow for fish and wildlife to prosper and provide a unique world-class feature that will allow the public and scientists to better understand how restoration can work with a little help from humans... The restoration project represents the best efforts between state, federal, tribal agencies and the PUD to find workable solutions that add value to our lives."

### PUD EARNS HIGH MARKS FOR TRANSMISSION SYSTEM RELIABILITY

A recent review of the District's compliance with electric system reliability standards found the District is meeting all audited standards and brought compliments for its compliance programs from the audit team of eight industry experts. The audit conducted by staff from the Western Electricity Coordinating Council (WECC) covered the District's compliance with 52 electric system reliability standards, which include several hundred sub-regulations. The auditors found no violations. It's an accomplishment in which the District is very proud.

### DISTRICT ENDORSES STEPS TOWARD FINANCIAL STABILITY

The District has approved a plan which outlines new financial guidelines as part of strategic planning and working toward a more sustainable financial future. The four guidelines are intended to:

- Provide a sufficient rate of return for the PUD so assets can be replaced over time and there will be sufficient income to meet District obligations, even under unusual (low water/low price) conditions;
- Gradually reduce the debt ratio (percentage of utility assets financed by debt) from approximately 75 percent to about 60 percent by 2015;
- Maintain an adequate debt-service coverage ratio to demonstrate that the District clearly has the resources to meet debt obligations, even under unusual conditions;
- Provide financial liquidity (cash reserves and other sources) to cover risks and provide additional financial stability.

The financial objectives are designed to put the PUD on a reliable, sustainable path over the next several years. These guidelines are also designed to serve as a solid foundation for the longer term. The goals of the plan are paying down debt, building reserves for a rainy day and avoiding large, sudden rate adjustments. Consideration of these financial steps is part of the District's work on revising its strategic plan to build a solid foundation for reliable, sustainable services for the long-term.

### JANNEY NAMED GENERAL MANAGER

Rich Riazzi, general manager of the District since May 2006, has resigned and moved to Pennsylvania to take a job with Duquesne Light Co. and be closer to family. The District has been highly appreciative of all the work Riazzi has done to get the PUD on a more sustainable track financially.

District commissioners have named Chief Finance/Risk Officer John Janney as the next general manager, saying they have great confidence in his ability to carry the PUD forward with the momentum established through strategic planning and strong financial policies. Janney had been named interim manager of the PUD upon the departure of Riazzi. Janney has extensive experience in the energy and utility industry. He led the work on the financial component of a strategic plan the PUD is updating. The new financial guidelines are designed to keep rates low and affordable by stabilizing revenues in coming years and smoothing out the ups and downs that have led to financial shortfalls this year and last with the poor economy, low river flows and below-normal prices on the wholesale power market.

### FINANCIAL HIGHLIGHTS

In June 2008, the Governmental Accounting Standards Board (GASB) issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." Statement No. 53 provides a comprehensive framework for the measurement, recognition and disclosure of derivative instrument transactions for the purpose of enhancing the usefulness and comparability of derivative instrument information reported by state and local governments. GASB Statement No. 53 is effective for the District beginning in fiscal year 2010; therefore, the District has restated the prior periods presented in these financial statements as the adoption of GASB No. 53 is applied retroactively.

For the six months ended June 30, 2010, Chelan County PUD recorded a loss before capital contributions of \$7.8 million, a decrease in earnings of \$9 million from the same period in 2009. The decrease is due primarily to lower wholesale power sales compared to 2009, combined with reduced yields on investments. The decrease in wholesale power sales revenue is due primarily to below-average snowpack and stream flows.

As of June 30, 2010, unrestricted cash and investments totaled \$190.4 million. The cash reserves balance reported has changed to reflect the revised strategic financial policies approved in June. Under the previous measure, Utility Services unrestricted cash and investments would have totaled \$158.1 million. The reserves now represent unrestricted cash reserves for the combined District.



John Janney  
General manager

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

Six months ended June 30, 2010

(in thousands)

	Rocky Reach	Columbia River- Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra- District Transactions (1)	6 Months Ended 06/30/10	6 Months Ended 06/30/09
<b>OPERATING REVENUES</b>	\$ 37,599	\$ 40,050	\$ 4,976	\$ 67,551	\$ -	\$ 7,944	\$ (49,485)	\$ 108,635	\$ 103,306
<b>OPERATING EXPENSES</b>	28,970	25,029	2,315	78,857	-	6,926	(49,485)	92,612	88,201
<b>NET OPERATING INCOME</b>	8,629	15,021	2,661	(11,306)	-	1,018	-	16,023	15,105
<b>OTHER INCOME (EXPENSE) (2)</b>	(8,847)	(13,409)	(2,195)	656	618	(660)	-	(23,837)	(22,058)
<b>CAPITAL CONTRIBUTIONS</b>	-	656	-	878	-	-	-	1,534	974
<b>CHANGE IN NET ASSETS</b>	\$ (218)	\$ 2,268	\$ 466	\$ (9,772)	\$ 618	\$ 358	\$ -	\$ (6,280)	\$ (5,979)

**CONDENSED COMBINING BALANCE SHEETS (Unaudited)**

June 30, 2010

(in thousands)

ASSETS	Rocky Reach	Columbia River- Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra- District Transactions (1)	06/30/10	06/30/09
<b>CURRENT ASSETS</b>	\$ 6,801	\$ 4,650	\$ 8,155	\$ 114,972	\$ 86	\$ 13,562	\$ -	\$ 148,226	\$ 159,091
<b>RESTRICTED ASSETS - CURRENT</b>	18,441	49,266	1,922	30,215	42,125	3,617	-	145,586	122,544
<b>TOTAL CURRENT ASSETS</b>	25,242	53,916	10,077	145,187	42,211	17,179	-	293,812	281,635
<b>NET UTILITY PLANT</b>	377,258	311,061	96,348	277,727	-	30,201	-	1,092,595	1,088,445
<b>RESTRICTED ASSETS - NONCURRENT</b>	12,540	17,602	1,054	16,578	31,193	1,984	-	80,951	72,999
<b>DEFERRED CHARGES &amp; OTHER ASSETS</b>	6,415	8,079	5,360	108,031	(44)	7,209	-	135,050	110,417
<b>TOTAL ASSETS</b>	\$ 421,455	\$ 390,658	\$ 112,839	\$ 547,523	\$ 73,360	\$ 56,573	\$ -	\$ 1,602,408	\$ 1,553,496
<b>LIABILITIES AND NET ASSETS</b>									
<b>CURRENT LIABILITIES</b>	\$ 6,472	\$ 27,770	\$ 3,210	\$ 2,484	\$ 15,817	\$ 15,300	\$ -	\$ 71,053	\$ 51,946
<b>INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT</b>	6,300	2,541	1,818	4,486	(15,816)	671	-	-	-
<b>LONG-TERM DEBT</b>	294,062	428,096	85,849	84,932	68,185	34,877	-	996,001	963,661
<b>DEFERRED REVENUES</b>	-	-	-	111,941	-	-	-	111,941	111,941
<b>OTHER LIABILITIES</b>	1,642	(4,266)	7,469	40,730	(277)	-	-	45,298	32,413
<b>TOTAL LIABILITIES</b>	308,476	454,141	98,346	244,573	67,909	50,848	-	1,224,293	1,159,961
<b>TOTAL NET ASSETS</b>	112,979	(63,483)	14,493	302,950	5,451	5,725	-	378,115	393,535
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	\$ 421,455	\$ 390,658	\$ 112,839	\$ 547,523	\$ 73,360	\$ 56,573	\$ -	\$ 1,602,408	\$ 1,553,496

<b>ELECTRIC</b>	2010	2009
As of June 30		
Number of Customers	48,020	47,754
Number of Residential Customers	35,663	35,449
YTD Average Residential Rate (Cents/kWh)	3.39	3.15

<b>POWER GENERATION (MWh)</b>	2010	2009
12 months ended June 30		
Lake Chelan	357,243	389,336
Rocky Reach	4,664,862	5,375,941
Rock Island	2,430,212	2,639,980

<b>HYDRO COST/MWH GENERATED (\$/MWh)</b>	2010	2009
12 months ended June 30		
Lake Chelan	\$ 25	\$ 21
Rocky Reach	15	14
Rock Island	32	29

**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, 2009. 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.