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 have capacity to generate nearly 2,000 megawatts of power. Forty-four percent of the electricity is available to benefit Chelan County and meet local electric demand, including a portion of the load for Alcoa’s Wenatchee aluminum smelter. The balance is delivered throughout the Pacific Northwest to additional long-term power purchasers—Puget Sound Energy, Avista, PacifiCorp, Douglas County PUD, and Portland General Electric.

**PUD APPROVES PLAN THAT SHOWS POWER SUPPLY WILL MEET LOAD**

In August 2008, PUD commissioners approved the PUD’s Integrated Resource Plan (IRP), a report required by state law that cites the sources of power needed to supply customers through 2018. The IRP, which shows an ample supply of power to meet local needs through the next decade, describes the mix of resources from generation, conservation and energy efficiency that will meet current and projected needs at the lowest reasonable cost and risk to the utility and its customer-owners.

**ROCK ISLAND DAM MODERNIZATION**

Rock Island Dam’s first powerhouse, which dates to the 1930s, is undergoing rehabilitation work to replace six 1950s-era turbines and generators and update four 1930s-era generators. Modernization and improvement projects taking place at Rock Island Dam are about 25 percent complete. The $200 million rehabilitation project started in 2001 and is expected to be completed in 2014. Work done to date has come in on time and at or under budget. Projects so far have included a new, safer entrance to the dam, new cranes and other plant upgrades, as well as the modernization of the first of four generator units.

**PUD SUCCESSFULLY MARKETS FINANCIAL NOTES**

In October 2008, the PUD successfully marketed $53.7 million in Consolidated System tax-exempt notes. The notes, which were sold at a premium, have a coupon rate of 5.00 percent and mature on July 1, 2013. The proceeds will be used to pay for Distribution System improvements over the next three years.

As part of the 2008 notes sale, Fitch Ratings increased its bond rating for the PUD to AA+ from AA. The report from Fitch said the upgrade “reflects steady strengthening of financial metrics over the past five years, very low cost hydroelectric power resources, among the lowest retail electric rates both regionally and nationally, and ample cash reserves.” They also noted strategic planning and establishing solid liquidity targets as positive developments. Moody’s Investors Services and Standard & Poor’s Rating Services also reaffirmed the District’s A2 and AA bond ratings.

In response to increasing turmoil on Wall Street, PUD officials have devised a financial contingency plan to help ensure access to funds amid current market uncertainty. The plan includes postponing major construction projects, if necessary, to reduce costs if market conditions don’t favor longer-term bonds. Approximately $35 million in taxable bonds for the Rock Island modernization project could be sold in November if market conditions are favorable.

**FINANCIAL HIGHLIGHTS**

As of September 30, 2008, Chelan County PUD recorded income before capital contributions of $8.4 million. This is a decrease of $18.4 million from the income before capital contributions of $26.8 million for the same period in 2007. The decrease is due primarily to lower wholesale power sales compared to 2007. This is due in part to decreased generation at the District’s hydro electric projects as a result of delayed runoff combined with lower-than-average river flows.

As of September 30, 2008, Utility Services’ unrestricted cash and investments totaled $189.3 million.
### Operating Revenues

- **Columbia Reach**: $58,487
- **Columbia River**: $54,666
- **Lake Chelan**: $4,653
- **Utility Services**: $118,340
- **Financing Facilties**: $12,436
- **Internal Services**: $2,306
- **9 Months Ended 09/30/08**: $178,628
- **9 Months Ended 09/30/07**: $180,376

### Operating Expenses

- **Columbia Reach**: $46,001
- **Columbia River**: $35,581
- **Lake Chelan**: $3,078
- **Utility Services**: $116,034
- **Financing Facilities**: $10,554
- **Internal Services**: $1,882
- **9 Months Ended 09/30/08**: $141,294
- **9 Months Ended 09/30/07**: $129,012

### Net Operating Income

- **Columbia Reach**: $12,486
- **Columbia River**: $19,085
- **Lake Chelan**: $1,575
- **Utility Services**: $2,306
- **Financing Facilities**: $1,882
- **9 Months Ended 09/30/08**: $37,334
- **9 Months Ended 09/30/07**: $51,364

### Other Income (Expense)

- **Columbia Reach**: ($13,699)
- **Columbia River**: ($17,852)
- **Lake Chelan**: ($1,586)
- **Utility Services**: $4,717
- **Financing Facilities**: $69
- **9 Months Ended 09/30/08**: ($28,979)
- **9 Months Ended 09/30/07**: ($24,522)

### Capital Contributions

- **Columbia Reach**: $5,396
- **Columbia River**: $65,868
- **Lake Chelan**: $6,231
- **Utility Services**: $33,809
- **Financing Facilities**: $6,377
- **9 Months Ended 09/30/08**: $5,396
- **9 Months Ended 09/30/07**: $27,798

### Change in Net Assets

- **Columbia Reach**: ($1,213)
- **Columbia River**: $1,233
- **Lake Chelan**: $1,254
- **Utility Services**: $37,334
- **Financing Facilities**: $13,751
- **9 Months Ended 09/30/08**: $29,977

### Condensed Combining Balance Sheets (Unaudited)

#### September 30, 2008

<table>
<thead>
<tr>
<th></th>
<th>Rocky Reach</th>
<th>Columbia River</th>
<th>Lake Chelan</th>
<th>Utility Services</th>
<th>Financing Facilities</th>
<th>Internal Services</th>
<th>9 Months Ended 09/30/08</th>
<th>9 Months Ended 09/30/07</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>$10,139</td>
<td>$5,042</td>
<td>$721</td>
<td>$125,788</td>
<td>$78</td>
<td>$11,792</td>
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<tr>
<td><strong>Restricted Assets - Current</strong></td>
<td>$1,244</td>
<td>$32,414</td>
<td>$9,450</td>
<td>$7,528</td>
<td>$65,868</td>
<td>$6,231</td>
<td>$122,735</td>
<td>$132,912</td>
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<tr>
<td><strong>Total Current Assets</strong></td>
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<td>$37,816</td>
<td>$10,171</td>
<td>$133,316</td>
<td>$65,496</td>
<td>$18,023</td>
<td>$276,655</td>
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<tr>
<td><strong>Net Utility Plant</strong></td>
<td>$386,763</td>
<td>$303,996</td>
<td>$58,384</td>
<td>$261,826</td>
<td>$33,809</td>
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<td><strong>Restricted Assets - NonCurrent</strong></td>
<td>$4,776</td>
<td>$5,226</td>
<td>$4,164</td>
<td>$88,942</td>
<td>$6,377</td>
<td>$124,045</td>
<td>$27,798</td>
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<tr>
<td><strong>Deferred Charges &amp; Other Assets</strong></td>
<td>$20,358</td>
<td>$7,053</td>
<td>$793</td>
<td>$522</td>
<td>$6,777</td>
<td>$145,310</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>$418,504</td>
<td>$353,641</td>
<td>$74,574</td>
<td>$488,248</td>
<td>$96,354</td>
<td>$61,655</td>
<td>$1,492,976</td>
<td>$1,460,981</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Rocky Reach</th>
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<th>9 Months Ended 09/30/08</th>
<th>9 Months Ended 09/30/07</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities and Net Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Current Liabilities</strong></td>
<td>$5,650</td>
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<td><strong>Long-term Debt</strong></td>
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<td>$35,869</td>
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<tr>
<td><strong>Deferred Revenues</strong></td>
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<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>$111,941</td>
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<tr>
<td><strong>Other Liabilities</strong></td>
<td>-</td>
<td>8,158</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>8,158</td>
<td>8,591</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
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<td>$420,933</td>
<td>$61,926</td>
<td>$164,106</td>
<td>$91,941</td>
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<td>$1,093,095</td>
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<tr>
<td><strong>Total Net Assets</strong></td>
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<td>$4,413</td>
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<td>$399,881</td>
<td>$385,749</td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Net Assets</strong></td>
<td>$418,504</td>
<td>$353,641</td>
<td>$74,574</td>
<td>$488,248</td>
<td>$96,354</td>
<td>$61,655</td>
<td>$1,492,976</td>
<td>$1,460,981</td>
</tr>
</tbody>
</table>

### Electric

- **As of September 30**
  - **2008**: 45,626
  - **2007**: 45,121

- **Number of Residential Customers**
  - **2008**: 34,398
  - **2007**: 34,039

- **Average Rate per Residential Customer (Cents/kWh)**
  - **2008**: 3.13
  - **2007**: 2.99

### Hydroelectric Sales of Energy

- **Sales for Resale (000's)**
  - **2008**: Lake Chelan $403,503, Rocky Reach $5,743,611, Rock Island $2,687,993
  - **2007**: Lake Chelan $462,747, Rocky Reach $6,256,729, Rock Island $2,855,786

### Average Price/KWh Sold

- **Cents/kWh**
  - **2008**: Lake Chelan 1.48, Rocky Reach 1.35, Rock Island 2.70
  - **2007**: Lake Chelan 1.08, Rocky Reach 1.19, Rock Island 2.36

### Notes to Condensed Statements

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 the Chelan County PUD’s Annual Report as of December 31, 2007. 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.