

Chelan County PUD

Semi-Annual Swaps Update

June 15, 2009

Overview

- Refresher – Debt Refunding / Swaps program
- Potential impact of current market conditions on projected NPV savings
- Impact of interest rate movements on Termination Values
- Credit and Liquidity Risk Implications
- Summary

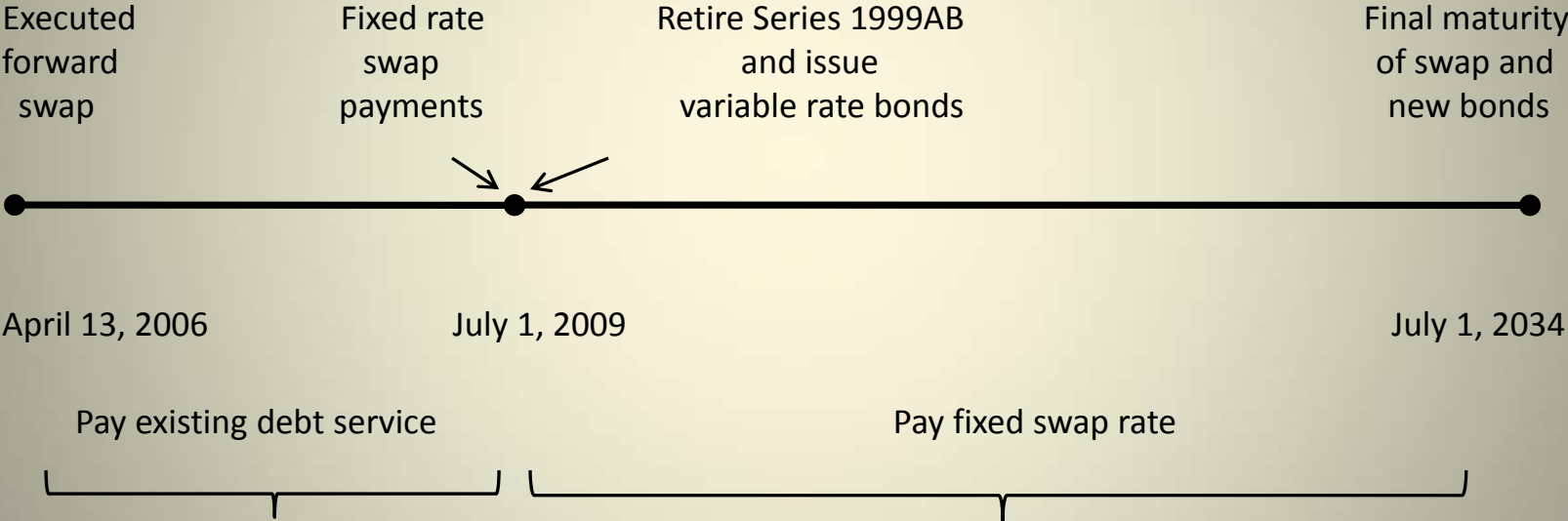
Debt Refunding & Forward Starting Swaps

- In 2005, District adopted an interest rate swap policy
- Purpose of forward starting swap
 - Lower borrowing costs when combined with variable rate financing
 - Lock in a lower fixed rate than can be achieved with conventional fixed rate financing under market conditions at the time swaps were first executed
 - Capture market benefit for a future transaction

District Swap Portfolio (3/31/09)										
Swap	Counterparty	Notional Amount	PUD Pays	PUD Receives	Effective Date	Maturity Date	Refunded Bonds	Refunded Bonds Coupon	PV Savings	
2007 Swap	Bear Stearns	\$ 65,625,000	3.752%	70 % of LIBOR	05/31/07	07/01/32	1996, 1997	6.05% – 6.40%	\$ 11,828,848	
2007 Swap	Bank of NY Mellon	27,864,000	3.752%	70 % of LIBOR	10/17/08	07/01/32	1996, 1997	6.05% – 6.40%	5,069,506	
2009 Swap	JP Morgan	30,355,000	4.031%	70 % of LIBOR	06/01/09	07/01/34	1999	6.20%	8,359,721	
2011 Swap	Goldman Sachs	78,375,000	4.058%	70 % of LIBOR	06/01/11	01/01/36	2001B	5.40% – 5.60%	13,327,058	
2013 Swap	Goldman Sachs	28,815,000	4.085%	70 % of LIBOR	05/30/13	07/01/32	2003	6.05%	5,810,330	
Total Notional		<u>\$ 231,034,000</u>							Total PV Savings	<u>\$ 44,395,463</u>

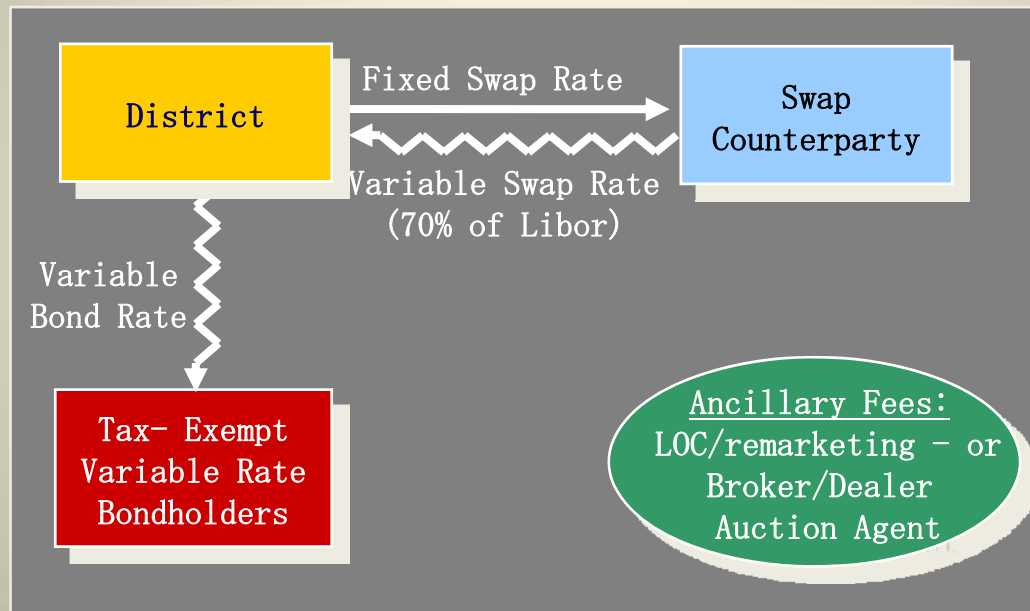
Debt Refunding – swap mechanics

2009 Swap - Forward Starting Swap
Consolidated System 1999AB Bonds
Par \$30,355,000 Rate 6.20% Callable 7-1-2009



Debt Refunding – swap mechanics

- The District becomes a “fixed rate payer,” receiving a floating rate payment from a counterparty and paying a fixed rate.
- If the variable rate received by the District offsets the variable rate paid to bondholders, the District’s debt cost equals the fixed swap rate plus any fees.

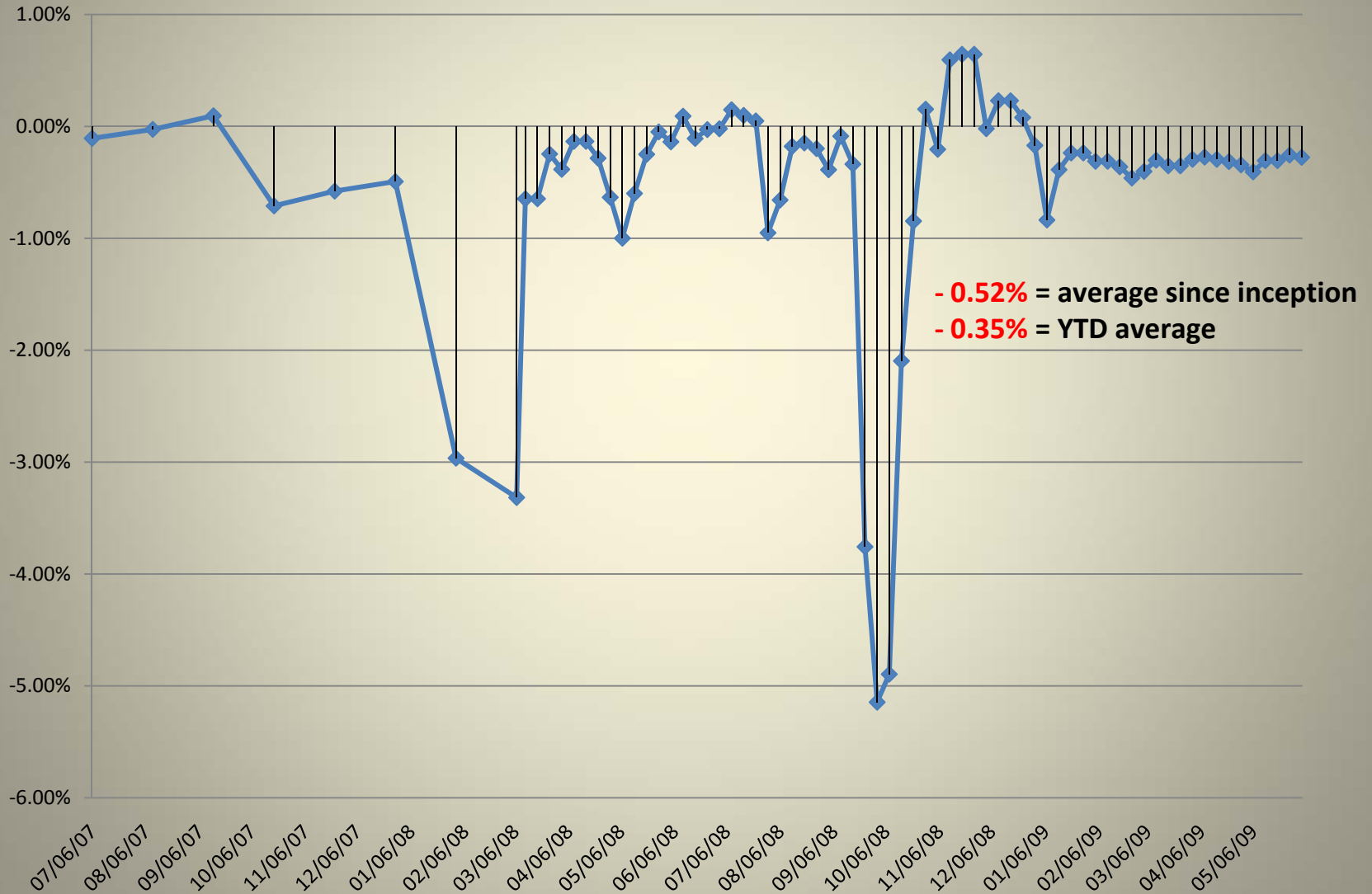


- 70% of LIBOR is intended, over time, to approximate the variable rate. Any difference is called basis risk
- Ancillary fees – e.g., liquidity support, remarketing fees
- Result – District effective rate: 4.031% + net basis risk + ancillary fees

2007 Series Refunding

Basis Benefit (Cost)

Variable Swap Pmt Received minus Bond Pmt Made



Ancillary Fees

- Liquidity Support
 - Last year - '07 swap / '08 VRDB's
 - 0.15%, 5 year term
 - Current market - indicative pricing:
 - 0.95% up to 1.6%, max 2 year term (maybe)
- Other Fees
 - Remarketing
 - Relatively stable – ranging from 0.10% to 0.20%

Projected NPV Savings

Forward Refundings / Interest Rate Swaps

<u>Series</u>	<u>Base (1)</u>	<u>Reforecast (2)</u>	<u>Difference</u>
2007	\$17	\$8	(\$9)
2009	\$8	\$1	(\$7)
2011	\$13	(\$3)	(\$16)
2013	\$6	\$1	(\$5)
	\$44	\$7	(\$37)

(1) original projections and assumptions

(2) assumes 0.35% basis cost and 1.0% liquidity cost*

* for '07 series 0.15% liquidity costs through 2013, and
1.0% thereafter

Note: neither Base or Reforecast scenarios take into account costs associated with keeping additional cash reserves on hand to support Variable Rate Debt and/or swaps

Interest Rate Swap Collateral Thresholds

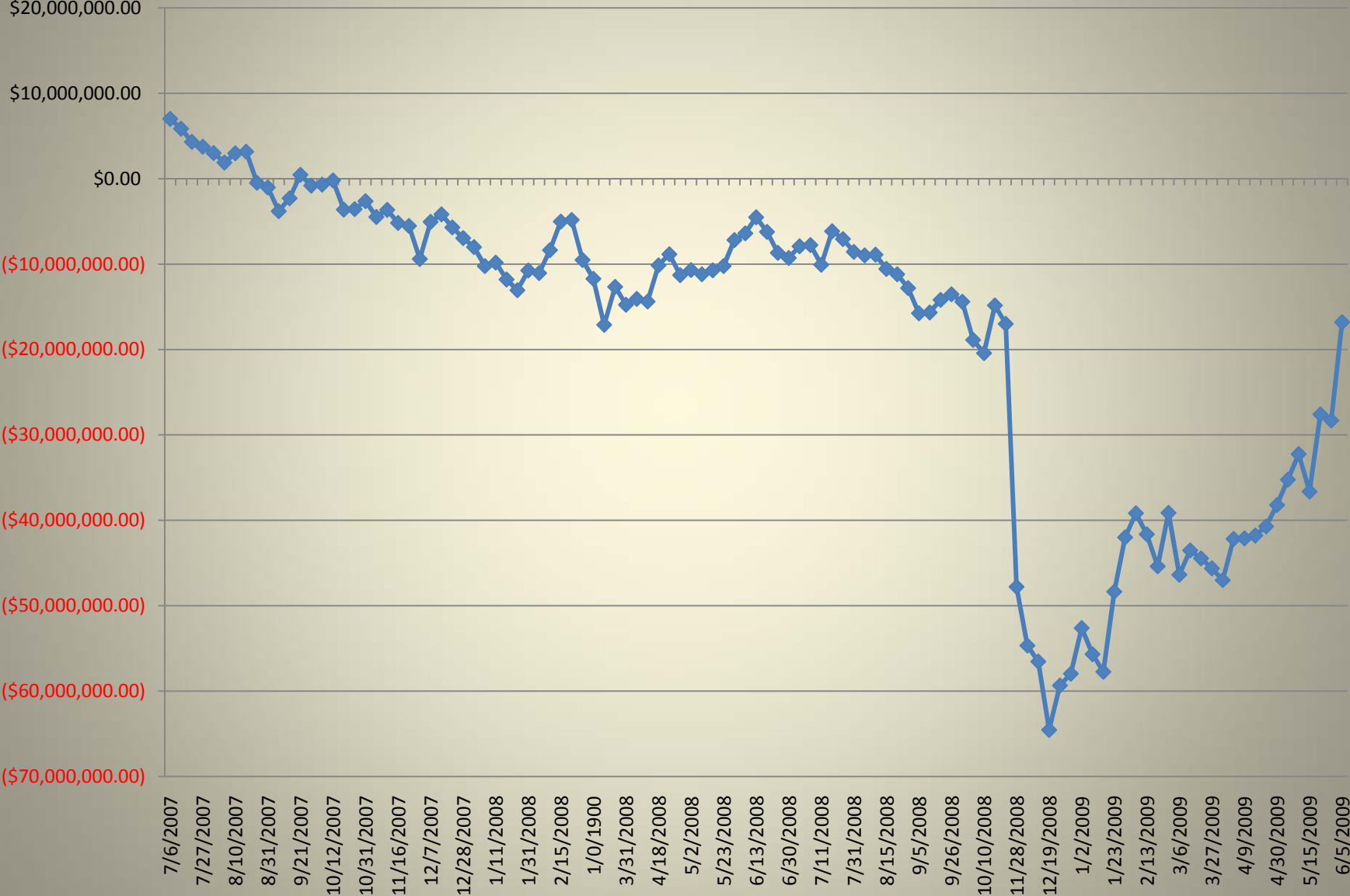
S&P/Fitch Rating	Moody's Rating	Collateral Threshold*
AAA	Aaa	Infinite
AA+ to AA-	Aa1 to Aa3	\$20,000,000
A+ to A-	A1 to A3	Zero
BBB+ or below	Baa1 or below	Zero

* Applies to Swap Counterparties. For the District, special rules apply - including ratings of credit support provider (e.g., swap insurer), where applicable

TERMINATION VALUE SENSITIVITY ANALYSIS (\$ Millions)

Counterparty	Notional Amount	Ratings			Swap Termination Values				
		Moody's	S&P	Fitch	Interest Rate Movement (%)				
					(-2.00%)	(-1.00%)	(Base Value)	(+1.00%)	(+2.00%)
JPMorgan Chase	\$95	Aa1	AA-	AA-	(\$34)	(\$24)	(\$15)	(\$6)	(\$0)
Goldman Sachs / Mitsui Marine	\$107	Aa1	AAA	N/A	(\$56)	(\$36)	(\$21)	(\$9)	\$1
Bank of New York - Mellon	\$28	Aaa	AA	AA-	(\$7)	(\$5)	(\$3)	(\$1)	\$0
Totals	\$230				(\$97)	(\$65)	(\$38)	(\$16)	\$1

Swap Mark-to-Market Value



SWAP COUNTERPARTY RATINGS

Counterparty	Bear Stearns Capital Markets Inc.			Goldman Sachs Mitsui Marine Derivative Products, L.P.			JPMorgan Chase Bank, N.A.			Bank of NY Mellon		
	Fitch Rating	Moody's Rating	S&P Rating	Fitch Rating	Moody's Rating	S&P Rating	Fitch Rating	Moody's Rating	S&P Rating	Fitch Rating	Moody's Rating	S&P Rating
12/23/2008	AA-	Aa2	A+	N/A	Aaa	AAA	AA-	Aaa	AA-	AA-	Aaa	AA
12/29/2008	AA-	Aa2	A+	N/A	Aaa	AAA	AA-	Aaa	AA-	AA-	Aaa	AA
1/7/2009	AA-	Aa2	A+	N/A	Aaa	AAA	AA-	Aaa	AA-	AA-	Aaa	AA
1/23/2009	AA-	Aa3	A+	N/A	Aaa	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
1/28/2009	AA-	Aa3	A+	N/A	Aaa	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
2/3/2009	AA-	Aa3	A+	N/A	Aaa	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
2/9/2009	AA-	Aa3	A+	N/A	Aaa	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
2/17/2009	AA-	Aa3	A+	N/A	Aaa	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
2/25/2009	AA-	Aa3	A+	N/A	Aaa	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
3/4/2009	AA-	Aa3	A+	N/A	Aaa	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
3/9/2009	AA-	Aa3	A+	N/A	Aaa	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
3/19/2009	AA-	Aa3	A+	N/A	Aaa	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
3/25/2009	AA-	Aa3	A+	N/A	Aaa	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
3/31/2009	AA-	Aa3	A+	N/A	Aaa	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
4/14/2009	AA-	Aa3	A+	N/A	Aa1	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
4/21/2009	AA-	Aa3	A+	N/A	Aa1	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
4/28/2009	AA-	Aa3	A+	N/A	Aa1	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
5/7/2009	AA-	Aa3	A+	N/A	Aa1	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
5/13/2009	AA-	Aa3	A+	N/A	Aa1	AAA	AA-	Aa1	AA-	AA-	Aaa	AA
6/8/2009	AA-	Aa3	A+	N/A	Aa1	AAA	AA-	Aa1	AA-	AA-	Aaa	AA

Ratings represent Senior Unsecured Debt Ratings for Moody's and Fitch and LT Local Issuer Credit rating for S&P, unless noted otherwise.

Ratings were queried from Bloomberg.

Red denotes negative watch or outlook in effect

Green denotes positive watch or outlook in effect

BOND INSURER COUNTERPARTY RATINGS

Counterparty	Syncora Guarantee Inc.			Financial Security Assurance, Inc.		
	Fitch Rating	Moody's Rating	S&P Rating	Fitch Rating	Moody's Rating	S&P Rating
<u>Date</u>						
12/23/2008	NR	Caa1	B	AAA	Aa3	AAA
12/29/2008	NR	Caa1	B	AAA	Aa3	AAA
1/7/2009	NR	Caa1	B	AAA	Aa3	AAA
1/23/2009	NR	Caa1	B	AAA	Aa3	AAA
1/28/2009	NR	Caa1	B	AAA	Aa3	AAA
2/3/2009	NR	Caa1	CC	AAA	Aa3	AAA
2/9/2009	NR	Caa1	CC	AAA	Aa3	AAA
2/17/2009	NR	Caa1	CC	AAA	Aa3	AAA
2/25/2009	NR	Caa1	CC	AAA	Aa3	AAA
3/4/2009	NR	Caa1	CC	AAA	Aa3	AAA
3/9/2009	NR	Caa1	CC	AAA	Aa3	AAA
3/19/2009	NR	Ca	CC	AAA	Aa3	AAA
3/25/2009	NR	Ca	CC	AAA	Aa3	AAA
3/31/2009	NR	Ca	CC	AAA	Aa3	AAA
4/14/2009	NR	Ca	CC	AAA	Aa3	AAA
4/21/2009	NR	Ca	CC	AAA	Aa3	AAA
4/28/2009	NR	Ca	D	AAA	Aa3	AAA
5/7/2009	NR	Ca	D	AAA	Aa3	AAA
5/13/2009	NR	Ca	D	AA+	Aa3	AAA
6/8/2009	NR	Ca	D	AA+	Aa3	AAA

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Summary

- The District has – and will continue to – manage its Variable Rate Debt / Swap portfolio to extract as much of projected savings as possible, while working to keep overall risk within acceptable levels
- The market continues to evolve and we need to remain flexible
- We will continue to update the Board as conditions warrant

QUESTIONS??