

## Chelan County PUD No. 1

Standard & Poor's today assigned its "AA" rating to Chelan County Public Utility District No. 1, Wash.'s (Chelan) proposed \$110 million series 2002 consolidated system revenue bonds. The rating on the bonds reflects:

- Very low production costs at Chelan's three hydroelectric projects, averaging 2.0 cents per kWh even under the exceptionally poor water conditions in 2001;
- Residential retail rates of 30 mills per kWh in 2001, which remain among the lowest in the country;
- The sale of excess power at market rates during periods of surplus, which largely compensated for the higher purchased power costs during the peak season owing to the low water levels;
- Continued strong historical distribution system debt service coverage on all outstanding obligations reflected in 6.24x times debt service coverage from operations in 2001.
- A strong, liquid balance sheet with \$82 million in unrestricted cash, \$77 million in various bond funds and \$110 million to meet future capital expenditures.

The bonds are secured by revenues of the consolidated system, which includes the three hydroelectric projects, the distribution system, and the water and wastewater system. Standard & Poor's does not make a rating distinction between the closed senior lien and the working junior lien because the consolidated system senior lien accounts for only 16.7% of total debt.

Chelan's low cost of power is derived from its hydroelectric plants, which produced energy at an extremely competitive average cost of 20 mills per kWh in 2001, a year when water conditions were very poor. Current contracts with investor-owned utilities for approximately 63% of the projects' output allow the district to recover only production costs. Once these contracts expire in 2011 and 2012, however, it is expected that Chelan will be able to negotiate new contracts or sell this output at market rates, expected to be well above production costs, which would give the district healthy operating margins. The remaining output of the hydroelectric projects is currently sold to the district's distribution system.

Chelan has surplus power during certain periods of the year. The sale of surplus power during 2001 at high market prices compensated for high-priced purchases in other periods that were necessitated by the low water levels.

Debt service coverage for the distribution debt and consolidated system are strong at 6.24x and 2.59x, respectively. The district also has strong debt absorption capability, and a \$1/Mwh rate hike can service about \$100 million in additional debt. With fish-related capital expenditure plans already funded through bonds, including the 2002 bonds, and no other significant expenses planned, coverage should remain strong. The balance sheet is liquid with \$82 million in cash, and should protect against contingencies.

### Outlook

The stable outlook reflects Chelan's ability to manage a severe power crisis, such as occurred in 2001, without rate increases or a large rise in the district's debt burden, low cost of power resources, and substantial cash reserves. The district should continue to benefit from off-system sales during surplus periods.