MOODY’S ASSIGNS Aa2 CREDIT RATING TO CHELAN PUBLIC UTILITY REVENUE BONDS

LOW COST UTILITY FINANCES CAPITAL IMPROVEMENTS

Electric Utilities
WA

Moody’s Rating

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<td>Consolidated System Revenue Bonds, Series 2002A, B and C</td>
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Sale Amount $110,000,000
Expected Sale Date 12/03/02
Rating Description Chelan Consolidated Hydro System Bonds, Series 2002 A, B and C

Opinion

NEW YORK, Nov 19, 2002 -- Moody's Investors Service has assigned a credit rating of Aa2 to the $110 million Chelan County Public Utility District No. 1's Series 2002 A, B and C Consolidated System Revenue Bonds scheduled to price December 3. The current offering of bonds will finance the district's capital improvement program including improvements to the hydro-electric system, the costs of certain fisheries-related improvements and improvements to the district's electricity distribution, water and wastewater systems. Moody's affirmed the credit rating of Aa2 on the outstanding $526,033,000 Hydro Consolidated System senior and subordinate lien revenue debt. Moody's does not distinguish between senior and subordinate debt in the ratings assigned because of the district's strong credit standing and an absence of delineation between liens in the power sales contracts. Moody's has also affirmed the Aa2 credit rating on the district's $307.1 million Rock Island System revenue bonds and the Aa2 rating on the district's Rocky Reach System revenue bonds. Moody's ratings reflect the following key considerations:

LOW COST HYDRO SYSTEM IS LONG TERM FUNDAMENTAL CREDIT STRENGTH, WHICH WAS CLEARLY EVIDENT DURING REGION'S POWER CRISIS

Fundamentally, Chelan's low cost hydro system and the district's access to transmission continues to represent the key long term credit strength. The district owns and operates three major hydroelectric projects with over 2,000MW of generation capacity: Rocky Reach (1,287MW) and Rock Island (660MW) on the Columbia River, and Lake Chelan (56MW). The district's cost of power has historically been well-below regional averages. The district's average cost of power from the nearly 10 million megawatt hours produced from its facilities is estimated at $13/mwh in 2002. By contrast the Mid-Columbia power price index in 2002 has averaged about $30/MWh and the Bonneville Power Administration's preference rate is $35/MWh. For the most part, the district can meet its full load requirements from its reserved share of its generation facilities. While the district had to purchase some power in the wholesale energy market during the 2001 drought, limited financial impacts were experienced as evidenced by the district not having to raise retail electric rates like so many other utilities in the region. Despite this limited exposure, the district acquired 21 small diesel generators that can provide up to 35MW to further ensure system reliability. The district has also participated in wind and solar projects.

While the district has several large wholesale customers, including investor-owned utilities and a subsidiary of Alcoa, which purchases electricity pursuant to firm power sale take-or-pay contracts, the risk is manageable given that little revenue margins are earned from these contracts; in addition, the very competitive prices charged insures wholesale and retail customer retention. The average industrial retail rate was about 2 cents/kwh in 2002. Sixty-one percent of the power output from the district's hydro-generation is sold by take-or-pay contract, including to Puget Sound Energy (48% of allocated capacity), Portland General Electric (8%), PacificCorp (3%) and Avista (2%), with the balance sold by the district's distribution system (24%). Alcoa Power has a contract with Chelan until 2011 and their allocation of capacity was 15% in 2001. Alcoa energy sales in 2001 represented almost 5% of total revenues. The district approved a new contract in 2001 with Alcoa, under which Alcoa has curtailed its operations and released its rights to purchase power from the district. Alcoa ceased local operations due to global economic pressures, not energy costs. In exchange for the release, the district sells Alcoa's share of Rocky Reach energy on the open market and

returns market price less cost of generation and administrative expenses to Alcoa.

An important consideration regarding these take-or-pay contracts given the continuing credit environment for investor-owned utilities is that any loss of any take-or-pay contracted load or of industrial load would allow the district to remarket that low cost power in the regional wholesale marketplace (including California), earning the margin between the low cost of the generation and market prices. Power purchasers also do not have the right of first refusal for any new capacity that might become available should any contracted party fail to meet its contractual obligation. Under the Rocky Reach Power Sales Contracts, the non-defaulting parties have an obligation to take up to an additional 25% of their original share upon default by one of the purchasers. Any remainder above that amount would be available to the district and would be sold at market prices. Moody's believes that Chelan's management has put in place the power marketing skills needed to ensure that the district can take advantage of the margins between its low cost structure and the market. Nonetheless, the still unsettled and uncertain power markets present potential risks with regard to the district's power marketing risk management. The district has developed a formal risk management policy and oversight process to ensure appropriate safeguards are in place.

SOUND FINANCIAL LIQUIDITY AND ANNUAL DEBT SERVICE COVERAGE MARGINS

An important credit strength is the district's sound financial record with sound margins providing for the maintenance of reserves and ongoing internal financing of capital requirements. Average debt service coverage calculated by Moody's on all debt is satisfactory at 1.33 times during 1996-2001. A significant amount of the district's outstanding debt is the Rock Island Hydro debt that has sum-sufficient debt service coverage since it is paid primarily as a cost of service take-or-pay contractual obligation. Debt ratio is above the median for U.S. municipal electric generation and distribution utilities. Overall rate flexibility is significant since the district's retail rates are substantially below the regional average. The district's 2002 residential rates averaged 3.0 cents/kwh, while the national average residential rate was 8.0 cents/kwh. The district sets rates without external regulatory approval. No rate increases are planned for 2002, 2003 or 2004. Moody's believes that the district's maintenance of a sound reserve level mitigates the revenue risks associated with a low water as evidenced in 2001. Net working capital as calculated by Moody's is strong. The district's forecasted financial operations reflect a continuation of these sound financial results.

WHILE HYDRO ADVANTAGES ARE SIGNIFICANT, ENVIRONMENTAL RISKS, WHILE BEING WELL MANAGED, ARE PRESENT

Chelan PUD clearly has one of the lowest cost structures of any U.S. electric utility. The resiliency of the fundamental strength of the hydro-based system was tested in 2001 amidst the second worst water year on record and the dysfunction of the wholesale energy market that registered average energy prices for the first six months of 2001 in the $200/Mwh range. While the hydro strengths are clearly evident, risks remain to the district's future cost structure. While Moody's believes these risks are present, the district has continued to manage them well. There do exist an uncertainty about future fish and wildlife protection costs including protection of endangered species. Whether or not there will be further requirements that could increase the district's capital costs beyond what is included in its current forecast remains an uncertainty, though some additional costs can be expected. The district has included in its projections the cost of the fish bypass system at Rocky Reach. Importantly, the district has worked on a proposed agreement with federal and state agencies in implementing the habitat conservation plan (HCP) focusing on salmon and steelhead that inhabit the mid-Columbia River. It is expected that the HCP will better quantify future fish and wildlife costs.

REGULATORY RISK ON HYDRO RELICENSING, BUT DISTRICT REMAINS PROACTIVE

Hydroelectric project relicensing with the Federal Energy Regulatory Commission (FERC) is a general credit risk that affects all Northwest hydro-based utilities since the outcome of the relicensing process cannot be predicted. Relicensing by the FERC is required for the Rocky Reach Hydro Project by June 30, 2006; for Lake Chelan Hydro, March 21, 2004; and for Rock Island, December 31, 2028. The district submitted the final license application for the Lake Chelan Project on March 31, 2002 and expects to file the application for the Rocky Reach Project by June 30, 2004. The district was approved for an alternative relicensing process for the Lake Chelan and Rocky Reach projects and has benefitted from the early involvement of all stakeholders and implementation of various environmental improvements. It should be noted that there has been no competing licenses filed for the Chelan Project. In addition, no existing hydro-facility license holder has ever been denied a new license it has applied for. Moody's believes that district management has established a thorough and inclusive strategy to resolve fish and relicensing issues consistent with its customer base requirements including the implementation of the HCP.

Outlook

Moody's has a stable credit outlook on the district's bonds given its limited exposure to the volatile wholesale power market, significant rate flexibility and sound financial results including its maintenance of comfortable reserves.

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