



Mission: To provide sustainable, reliable utility services that enhance the quality of life in Chelan County.

PUD PROFILE

Chelan County PUD owns and operates one of the nation's largest nonfederal, customer-owned hydroelectric generating systems.

Hydropower from the District's three dams supplies clean, renewable, affordable energy to local customers and is delivered to utilities that serve customers across the Pacific Northwest.

For decades Chelan PUD's three dams have demonstrated what's best about public power and local control. Together the dams can generate nearly 2,000 megawatts of power at their peak. In 2013, they produced 9.5 million megawatt hours of affordable, emission-free electricity.

ROCKY REACH LARGE TURBINES RETURNED TO COMMERCIAL PRODUCTION

More than a year ago, crews noticed an issue with unit C10 when oil was found around a generator shaft and metal shavings were found in a strainer. Throughout the summer, Chelan PUD crews looked for the cause of the leak and the shavings. In September 2013, a PUD employee discovered a crack in a stainless steel rod that delivers oil to a servo motor. The motor adjusts the angle of the turbine blades.

Units C-8 through C-11 are Kaplan turbines which have adjustable blades and were part of the major rehabilitation of the generating units at Rocky Reach and placed into service between 1998 and 2002. The adjustability of the blades makes these turbines "fish friendly" and provides additional efficiency over a fixed-blade turbine design.

In late September 2013, three additional large generating units at Rocky Reach Dam were taken out of service since they have the same design elements. Out of concern for the health and safety of District employees, the public and the environment, it was decided to take all four units out of service for further investigation. Interim repairs were completed to ensure consistent reliable operations. The interim fixed-blade position selected is the safest and most efficient at full turbine flow. The first of the four units was brought back into service in the temporary, fixed-blade configuration in late December 2013, more than a month ahead of schedule. The second and third units were placed back into service with interim repairs in January and February 2014, respectively. The District successfully returned the last of the four largest Rocky Reach generating turbines to commercial production ahead of schedule in mid-April.

A permanent solution is still being finalized, but it is anticipated that each of the units will be returned to the Kaplan, variable pitch blade design. One unit at a time will be taken out of service for the permanent repair. The repair work is expected to begin in June 2015, after the engineering design review is complete.

These repairs and the lost production time are not expected to have an effect on District rates. The District has in place effective risk management plans. The hedging program, real-time agreement, long-term contracts, insurance program and strong financial policies have significantly reduced the impact to the District from events such as this.

FIRST SPRING SALMON SAFELY SWIM PAST ROCK ISLAND DAM

In February, Chelan County PUD was notified by its neighbor, Grant County PUD, that its Wanapum Dam had a crack in one of the spillway piers and that it was necessary to draw down the Wanapum reservoir to reduce the volume of water and pressure on the upriver side of the dam. This allowed engineers to inspect the dam and assess the damage. Wanapum Dam is approximately 36 river miles downstream from Chelan County PUD's Rock Island Dam.

To avoid potential catastrophic damage to Rock Island Dam due to the difference between the head water and tail water at the dam, operations were shut down for several days in March until river conditions were stabilized and power generation was restarted.

The focus then turned to managing programs for adult and juvenile fish passage, as well as recreation opportunities and irrigation. Adult fish migration begins in early spring at Rock Island Dam. In an effort to ensure safe passage of the returning salmon and steelhead this season during the Wanapum drawdown condition, Chelan County PUD decided to add temporary extensions to fish ladders to ensure access for fish migrating upstream later in the season when flows are lower. Sections of 30-foot-long denil fishways, a ladder that has baffles that aid the fish through the fishway, were installed at two of the seven fish ladder entrances. A third fish ladder, using a similar design will be completed by June 30. This modification was chosen because of its flexibility to accommodate a wide range of water level conditions.

Initial results confirm that the modifications to Rock Island dam's fish ladders are allowing safe passage for upstream migrating adult salmon and steelhead. The District is seeing normal fish counts at Rock Island Dam for this time of year, demonstrating that the salmon are successfully navigating the modified ladder and migrating upstream.

HIGH SCORES IN CUSTOMER SERVICE AND RELIABILITY IN RECENT SURVEY

SDS Research of Salt Lake City recently contacted about 400 Chelan PUD residential electric customers to rate satisfaction with the utility service from the PUD. The results were compared against more than 50 utilities from across the country. The results placed the District in the top quartile in key categories such as courtesy, responsiveness, professionalism, problem-solving efficiency, as well as communications with customers and service reliability.

Ninety-two percent of the residential electric customers that were contacted responded they were either very satisfied or

satisfied with their overall utility service. Chelan PUD also was highly rated for the value of utility service when compared with gas, water or cable TV; for reliable service; and for communication with customers. A representative from SDS Research told PUD commissioners he would place the PUD in the top five of the utilities that they've done surveys for during the last four to five years.

FINANCIAL HIGHLIGHTS

For the three months ended March 31, 2014, Chelan County PUD recorded a change in net position of \$18.8 million, a decrease in earnings of \$4.7 million from the same period in 2013. The decrease in earnings is primarily due to an increase in purchased power costs that were not fully offset by the increase in wholesale sales. The additional power purchases were due to a combination of balancing resources and load forecasts, early forecasts of below average river flows, anticipated potential needs as a result of the turbine repairs and the Wanapum reservoir drawdown.

As of March 31, 2014, combined unrestricted cash and investments totaled \$277.9 million compared to \$251.4 million from the same period in 2013. The increase in unrestricted reserves is primarily attributable to the District's positive 2013 operating results. The \$35.7 million increase in Other Assets was due primarily to an increase in long-term investments as a result of higher cash balances resulting from positive operating results and changes in investment strategies.

Current liabilities increased \$60.1 million from the prior year due to an increase in the current portion of long-term obligations as a result of changes in regularly scheduled repayments of bond principal on existing debt combined with a scheduled \$29.0 million maturity of 5-year notes during 2014.

Long-term debt decreased by \$99.6 million due to the increase in the current portion of long-term obligations mentioned previously combined with scheduled maturities, the early retirement of the 2004 C bonds and the partial defeasance of the 2009A Rock Island Environmental Enhancement bonds. The reduced debt leverage supports the District's financial policies, customer-owner priorities, strong credit rating and long-term financial sustainability.

Other liabilities decreased \$9.8 million primarily due to the termination in 2013 of the three remaining interest rate swaps that were deemed no longer beneficial to the District. The move was part of the overall management of District debt for long-term financial stability.



Kelly Boyd
 Chief Financial Officer/
 Chief Risk Officer

CONDENSED COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION (Unaudited)

Three months ended March 31, 2014

(in thousands)

	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	3 Months Ended 03/31/14	3 Months Ended 03/31/13
OPERATING REVENUES	\$ 22,719	\$ 24,716	\$ 3,389	\$ 75,128	\$ 2,139	\$ 4,337	\$ (35,121)	\$ 97,307	\$ 83,008
OPERATING EXPENSES	14,705	11,721	1,619	72,551	-	3,753	(35,121)	69,228	49,663
NET OPERATING INCOME	8,014	12,995	1,770	2,577	2,139	584	-	28,079	33,345
OTHER INCOME (EXPENSE) (2)	(3,408)	(6,449)	(1,347)	1,021	660	(395)	-	(9,918)	(10,431)
CAPITAL CONTRIBUTIONS	-	132	-	498	-	-	-	630	563
CHANGE IN NET POSITION	\$ 4,606	\$ 6,678	\$ 423	\$ 4,096	\$ 2,799	\$ 189	\$ -	\$ 18,791	\$ 23,477

CONDENSED COMBINING STATEMENTS OF NET POSITION (Unaudited)

March 31, 2014

(in thousands)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	03/31/14	03/31/13
TOTAL CURRENT ASSETS	\$ 11,146	\$ 20,478	\$ 4,552	\$ 117,492	\$ 32,988	\$ 15,517	\$ -	\$ 202,173	\$ 210,023
NET UTILITY PLANT	329,348	319,207	94,184	298,863	-	24,732	-	1,066,334	1,083,880
RESTRICTED ASSETS - NONCURRENT	37,190	65,554	290	18,531	24,693	2,919	-	149,177	122,299
OTHER ASSETS	6,622	18,522	4,056	103,959	62,042	10,190	(16,027)	189,364	153,688
DEFERRED OUTFLOWS OF RESOURCES	-	3,209	-	-	9,644	-	-	12,853	20,124
TOTAL ASSETS	\$ 384,306	\$ 426,970	\$ 103,082	\$ 538,845	\$ 129,367	\$ 53,358	\$ (16,027)	\$ 1,619,901	\$ 1,590,014
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION									
CURRENT LIABILITIES	\$ 24,181	\$ 34,300	\$ 5,688	\$ 17,198	\$ 38,131	\$ 26,314	\$ -	\$ 145,812	\$ 85,706
INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT	(330)	(193)	(181)	5,120	-	(4,416)	-	-	-
LONG-TERM DEBT	213,488	368,916	70,504	14,465	41,415	25,886	-	734,674	834,276
UNEARNED REVENUES	10,085	10,497	-	92,127	10,039	-	(16,027)	106,721	113,403
OTHER LIABILITIES	-	440	8,219	18,500	-	-	-	27,159	36,954
TOTAL LIABILITIES	247,424	413,960	84,230	147,410	89,585	47,784	(16,027)	1,014,366	1,070,339
DEFERRED INFLOWS OF RESOURCES	58	26,011	-	1,341	1,344	-	-	28,754	30,206
TOTAL NET POSITION	136,824	(13,001)	18,852	390,094	38,438	5,574	-	576,781	489,469
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	\$ 384,306	\$ 426,970	\$ 103,082	\$ 538,845	\$ 129,367	\$ 53,358	\$ (16,027)	\$ 1,619,901	\$ 1,590,014

ELECTRIC	2014	2013
As of March 31		
Number of Customers	48,883	48,510
Number of Residential Customers	36,452	36,112
YTD Average Residential Rate (Cents/kWh)	3.04	3.06

POWER GENERATION (MWh) (000)	2014	2013
3 months ended March 31		
Lake Chelan	85	93
Rocky Reach	1,320	1,450
Rock Island	600	726

HYDRO PRODUCTION COST/MWH GENERATED (\$/MWh)	2014	2013
3 months ended March 31		
Lake Chelan	\$ 30	\$ 26
Rocky Reach	14	11
Rock Island	30	24

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, 2013. 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.