



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.

COMMISSIONERS UPDATE TARGETS USED TO KEEP PUD FINANCES ON SUSTAINABLE PATH

Now that Chelan County PUD has achieved the financial targets set during strategic planning in 2010, commissioners have looked ahead to future measurements to make sure District finances remain sound through 2019 and beyond. In May, commissioners updated financial targets for 2015-2019 to reflect the accomplishment of meeting the 2010 strategic plan targets.

Reducing long-term debt remains a high priority for PUD customer-owners and because it improves three of the four financial measurements while maintaining strong reserves. The District accelerated debt reduction in 2013 by paying off \$27 million more than the \$41 million that was budgeted. Plans are to reduce long-term debt by \$82 million in 2014. The District's strong reserves offer the continued opportunity to pay down debt ahead of forecasts in the next five years and beyond. Benefits of this approach include helping to maintain low electric rates, while offering flexibility in paying for ongoing operation costs.

Forecasts show PUD finances are expected to meet the revised targets for liquidity, rate of return, debt leverage and debt coverage for the next five years and beyond under most circumstances. On the key measurement of debt leverage, commissioners targeted less than 60 percent for 2014 and 35 percent by 2019. Looking ahead, the District's finances are expected to remain solid, providing the funds needed to meet customer priorities to:

- Keep rates affordable
- Save for a rainy day
- Continue to pay down debt
- Maintain dams, power lines and equipment to provide reliable service.

STRONG TODAY, PREPARING FOR TOMORROW

In 1936, the residents of our county had the foresight to think about the next generation and invest in a thriving community by providing affordable, reliable power for all. Today, we are benefiting from their bold vision. Now it is our turn to look to the future. It's important to keep our past in mind as we chart the future of Chelan County PUD. As we update our strategic plan for 2015 and beyond, we intend to keep our utility on a path toward optimizing value for our customer-owners. In June, the Board of Commissioners launched a community conversation called *Our Public Power: the Next Generation*. The conversation is meant to give as many of our county's residents as possible a chance to influence the future we all share.

Through the end of 2014, we will be reaching out to engage our customer-owners in an in-depth conversation about the priorities of our utility. We will then create a framework for delivering value back to the county in a manner that targets the highest priorities of our customer-owners that are balanced with our long-term financial stability.

FISH PASSAGE FROM ROCK ISLAND DAM GOING WELL

Fish passage has been a priority for the District since realizing that the fracture at our neighbor Grant County PUD's Wanapum Dam would impact fish passage. District employees have worked closely with colleagues at Grant PUD and with federal, state and tribal entities to ensure the safe passage of fish this season.

Modifications to fish ladders at Rock Island dams are showing positive results for the spring run of adult Chinook salmon. Earlier this spring, Chelan County PUD installed two 80-foot denil baffled extensions on the Chelan County side of the dam to provide fish access to the ladders when low river flows, compounded by the Wanapum reservoir drawdown, occur in late summer. A third ladder extension on the Douglas County side was completed in time for the anticipated record return of sockeye and summer Chinook.

Spring river flows are mirroring expected normal runoff resulting in near-normal water levels for fish ladder operations at Rock Island Dam. The monitoring and evaluation of returning adults at Rock Island agrees with the findings at Wanapum Dam demonstrating to biologists the success of spring Chinook migrating upstream past Wanapum and Rock Island dams. The spring Chinook adult count at Rock Island surpassed 20,000 fish on June 3, which comparatively is 164 percent of the 10-year average for spring Chinook by this date.

FINANCIAL HIGHLIGHTS

For the six months ended June 30, 2014, Chelan County PUD recorded a change in net position of \$41.7 million, a decrease in earnings of \$5.6 million from the same period in 2013. The decrease in net 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 and anticipated potential needs as a result of turbine repairs at Rocky Reach dam and the Wanapum reservoir drawdown. In 2013, four large generating units at Rocky Reach dam were taken out of service due to problems with design elements after a crack was discovered in one generating unit in a stainless steel rod that delivers oil to a servo motor that adjusts the angle of the turbine blades. The generating units were subsequently brought back into service ahead of schedule. The Rocky Reach turbine repairs and the Wanapum reservoir drawdown are not expected to have an effect on District rates. The District's effective risk management plans and strong financial policies have significantly reduced the impact to the District from events such as these.

As of June 30, 2014, combined unrestricted cash and investments totaled \$297.9 million compared to \$275.7 million from the same period in 2013. The \$22.2 million increase in unrestricted reserves is primarily attributable to the District's positive 2013 operating results. While short-term cash and investments were down, contributing to the decrease in Current Assets, this was more than offset by an increase in long-term investments due to the lengthening of investment strategies. The \$26.6 million increase in noncurrent restricted assets is due to debt reduction and capital recovery charges collected from power purchasers under the new power sales contracts offset somewhat by the use of construction funds. The \$55.0 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 the lengthening of investment strategies.

Current liabilities increased \$64.8 million from the prior year due primarily 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 \$103.9 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.



Kelly Boyd
 Chief Financial Officer/
 Chief Risk Officer

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

Six months ended June 30, 2014

| (in thousands) | Rocky Reach | Rock Island | Lake Chelan | Utility Services | Financing Facilities | Internal Services | Intra-District Transactions (1) | 6 Months Ended 06/30/14 | 6 Months Ended 06/30/13 |
|-----------------------------------|-------------|-------------|-------------|------------------|----------------------|-------------------|---------------------------------|-------------------------|-------------------------|
| OPERATING REVENUES | \$ 45,516 | \$ 53,002 | \$ 7,284 | \$ 158,258 | \$ 4,279 | \$ 8,326 | \$ (74,174) | \$ 202,491 | \$ 172,314 |
| OPERATING EXPENSES | 29,449 | 27,017 | 3,660 | 149,537 | - | 7,716 | (74,174) | 143,205 | 103,480 |
| NET OPERATING INCOME | 16,067 | 25,985 | 3,624 | 8,721 | 4,279 | 610 | - | 59,286 | 68,834 |
| OTHER INCOME (EXPENSE) (2) | (6,618) | (12,904) | (2,668) | 2,095 | 1,898 | (791) | - | (18,988) | (22,801) |
| CAPITAL CONTRIBUTIONS | - | 264 | - | 1,168 | - | - | - | 1,432 | 1,233 |
| CHANGE IN NET POSITION | \$ 9,449 | \$ 13,345 | \$ 956 | \$ 11,984 | \$ 6,177 | \$ (181) | \$ - | \$ 41,730 | \$ 47,266 |

CONDENSED COMBINING STATEMENTS OF NET POSITION (Unaudited)

June 30, 2014

| (in thousands) | Rocky Reach | Rock Island | Lake Chelan | Utility Services | Financing Facilities | Internal Services | Intra-District Transactions (1) | 06/30/14 | 06/30/13 |
|--|-------------|-------------|-------------|------------------|----------------------|-------------------|---------------------------------|--------------|--------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | | | | | | |
| TOTAL CURRENT ASSETS | \$ 11,574 | \$ 12,089 | \$ 4,664 | \$ 126,122 | \$ 43,091 | \$ 14,404 | \$ - | \$ 211,944 | \$ 236,323 |
| NET UTILITY PLANT | 327,684 | 317,375 | 93,921 | 299,736 | - | 26,454 | - | 1,065,170 | 1,077,709 |
| RESTRICTED ASSETS - NONCURRENT | 39,349 | 62,183 | 52 | 18,658 | 25,445 | 2,640 | - | 148,327 | 121,745 |
| OTHER ASSETS | 6,369 | 18,344 | 3,941 | 104,443 | 67,936 | 8,763 | (15,803) | 193,993 | 138,992 |
| DEFERRED OUTFLOWS OF RESOURCES | - | 3,192 | - | - | 9,307 | - | - | 12,499 | 21,126 |
| TOTAL ASSETS | \$ 384,976 | \$ 413,183 | \$ 102,578 | \$ 548,959 | \$ 145,779 | \$ 52,261 | \$ (15,803) | \$ 1,631,933 | \$ 1,595,895 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | | | | | | | | |
| CURRENT LIABILITIES | \$ 24,801 | \$ 34,730 | \$ 5,590 | \$ 18,929 | \$ 43,508 | \$ 27,004 | \$ - | \$ 154,562 | \$ 89,786 |
| INTERSYSTEM PAYABLE (RECEIVABLE) - CURRENT | (495) | (773) | (202) | 6,901 | - | (5,431) | - | - | - |
| LONG-TERM DEBT | 208,841 | 347,975 | 69,584 | 14,311 | 48,660 | 25,443 | - | 714,814 | 818,683 |
| UNEARNED REVENUES | 9,925 | 10,337 | - | 90,677 | 9,883 | - | (15,803) | 105,019 | 111,693 |
| OTHER LIABILITIES | - | 473 | 8,207 | 18,500 | - | - | - | 27,180 | 34,815 |
| TOTAL LIABILITIES | 243,072 | 392,742 | 83,179 | 149,318 | 102,051 | 47,016 | (15,803) | 1,001,575 | 1,054,977 |
| DEFERRED INFLOWS OF RESOURCES | 237 | 26,775 | 14 | 1,659 | 1,912 | 41 | - | 30,638 | 27,660 |
| TOTAL NET POSITION | 141,667 | (6,334) | 19,385 | 397,982 | 41,816 | 5,204 | - | 599,720 | 513,258 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION | \$ 384,976 | \$ 413,183 | \$ 102,578 | \$ 548,959 | \$ 145,779 | \$ 52,261 | \$ (15,803) | \$ 1,631,933 | \$ 1,595,895 |

| ELECTRIC | 2014 | 2013 |
|--|--------|--------|
| As of June 30 | | |
| Number of Customers | 49,084 | 48,719 |
| Number of Residential Customers | 36,609 | 36,266 |
| YTD Average Residential Rate (Cents/kWh) | 3.17 | 3.17 |

| POWER GENERATION (MWh) (000) | 2014 | 2013 |
|-------------------------------------|-------|-------|
| 6 months ended June 30 | | |
| Lake Chelan | 185 | 213 |
| Rocky Reach | 3,407 | 3,522 |
| Rock Island | 1,444 | 1,690 |

| HYDRO PRODUCTION COST/MWH GENERATED (\$/MWh) | 2014 | 2013 |
|---|-------|-------|
| 6 months ended June 30 | | |
| Lake Chelan | \$ 30 | \$ 24 |
| Rocky Reach | 10 | 10 |
| Rock Island | 27 | 22 |

NOTES TO CONDENSED STATEMENTS

(1) Intra-District transactions are eliminated.

(2) Consists primarily of investment income and interest expense on long-term debt.

Public Utility District No. 1 of Chelan County (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.