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Public Utility District No. 1 of Jefferson County

Electric System Financing Plan

Overview

PUD No. 1 of Jefferson County (the "District") is purchasing the electric facilities providing service to Jefferson County (the "Electric System" or the "System") from Puget Sound Energy Inc.("Puget"), for a price of $103 million. The District will need additional funding for trucks and equipment necessary to commence operations and also may need interim financing to cover costs prior to starting to provide electric service. Work on obtaining interim and long-term financing is expected to be finalized directly after execution of the Definitive Agreements and obtaining access to power from Bonneville Power Administration.

This financing plan summarizes the estimated borrowing amounts required, provides the legislative authority for the District to issue debt, discusses the security for the debt issued, and provides an approximate time table.

Legislative Authority

Title 54 of the Revised Code of Washington ("RCW") sets out the legal authority for public utility districts, including the District, to issue revenue obligations and general obligation bonds. Chapter 39.46 RCW sets out details specifically related to the issuance of bonds.

The District has the authority to issue revenue bonds upon approval by the District Commission secured by a pledge of revenues of the utility. There is no statutory limit to the amount of revenue debt the District can issue; rather the limit is set by a demonstrated ability to repay the debt. The Commission has the legal authority to set rates and charges as necessary to pay costs of operating the system and to pay debt service on any debt issued.

The District also has the authority to issue general obligation debt up to a limit of 3/8 of 1% of the assessed value of the District in accordance with RCW 39.36.020. The District's assessed value for the 2010 collection year is $5,386,563,017, resulting in a debt capacity of $20,199,611.

General obligation debt of the District can be repaid either from tax collections or District revenues. Tax collections cannot be use to pay revenue bonds, but revenues can be used to pay for general obligation bonds.

Tax Status of Borrowing

Under IRS regulations the District cannot issue tax-exempt debt to finance the acquisition of the Electric System. However, tax-exempt debt can be used can be used to purchase equipment and to pay for ongoing capital improvements of the System.

Interim Financing

The District is incurring ongoing expenses related to the acquisition of the Electric System, and these expenses will continue until the District takes over operation of the System. Until the acquisition is completed, the District will not be able to incur indebtedness secured by revenues of the System. Currently the District is using cash reserves.

Additionally, the District can incur some indebtedness secured by a limited tax pledge of the District. As security for the debt, the District would pledge its tax collections in addition to any other funds legally available to pay for the debt. In 2010 the District's tax collections are approximately$397,000 based on a levy rate of about $0.07 per $1,000 of assessed value. However, the District has not been levying to the maximum amount each year and has "banked" capacity to levy at a higher rate. The Jefferson County Assessor estimates that the District would be able to levy approximately $550,000 next year. Under Washington State law, this amount can increase at annually at 1% plus new construction.

Currently the District is using approximately $178,000 annually to pay for acquisition of a lake for future water supply. The District is discussing options for reducing or eliminating this payment, either by selling the lake or by refinancing the debt over a longer period of time. For purpose of developing the financing plan it is assumed that this amount would remain the same. It is also assumed that the District would cover all current water related expenses and salaries with revenues from the water system and not from the property taxes. With these assumptions the District would have $372,000 annually to pay for interim financing expenses or debt service on funds borrowed. If necessary this would finance for long term borrowing approximately $4.3 million which could be used for interim financing and startup expenses of the Electric System.

The District is developing a cash flow of costs prior to actually acquiring the System; however, the District expects that it will need substantially less than $4.3 million in capital. To obtain interim funding the District will be able to set up a line of credit with a commercial bank, secured by the pledge of the District to issue long term bonds secured by the District's tax collections. However, once the System is acquired by the District, the District will be able to sell long term revenue bonds and repay the interim financing. If the District ultimately needs to issue long term bonds secured by the tax collections, this debt still can be paid from Electric System revenues. As a result, the District will not be imposing a property tax long term for the Electric System.

Long Term Financing

RUS

The District plans to issue electric system revenue bonds to purchase the Electric System. The District is qualified to borrow from the U. S. Department of Agriculture Rural Utilities Service ("RUS"). Alternatively, the District can sell electric system revenue bonds through a public sale. At the present time interest rates for RUS loans are lower than the District could achieve through the issuance of taxable bonds through a public sale, so the District is pursuing RUS as the primary alternative. The District plans to apply to RUS for the maximum funding available and publicly sell bonds for any remaining costs.

The first step in borrowing funds from the RUS is to receive a "rural" eligibility determination, which was received in September 2009 and is included as Exhibit A. Following this determination, the District met with the RUS General Field Representative covering this region. Next the District plans to meet with the RUS in Washington DC to work on details of the loan complete the application, and determine the funding date.

Issuance of Publicly Sold Bonds

Any acquisition or startup costs not funded by RUS will be funded through the sale of long term revenue bonds. These bonds would be issued on a parity of lien with any RUS debt outstanding and would be secured by a pledge of the net revenues of the District. If for some reason RUS financing is unavailable the District can issue all of the required debt in the public bond market. The District will pledge to set its rates and charges at a level sufficient to pay debt service on the bonds and to cover all costs of operating the system.

Both RUS and the public bond market will review the credit of the District. For the sale of public bonds the District will need to receive rates from probably two of the three major rating agencies – Moody's, Standard & Poor's and Fitch Ratings. The rating is based on a combination of financial status of the District, projected operating results, security provisions in the bond resolution authorizing the sale and the general economy of the District's service area.

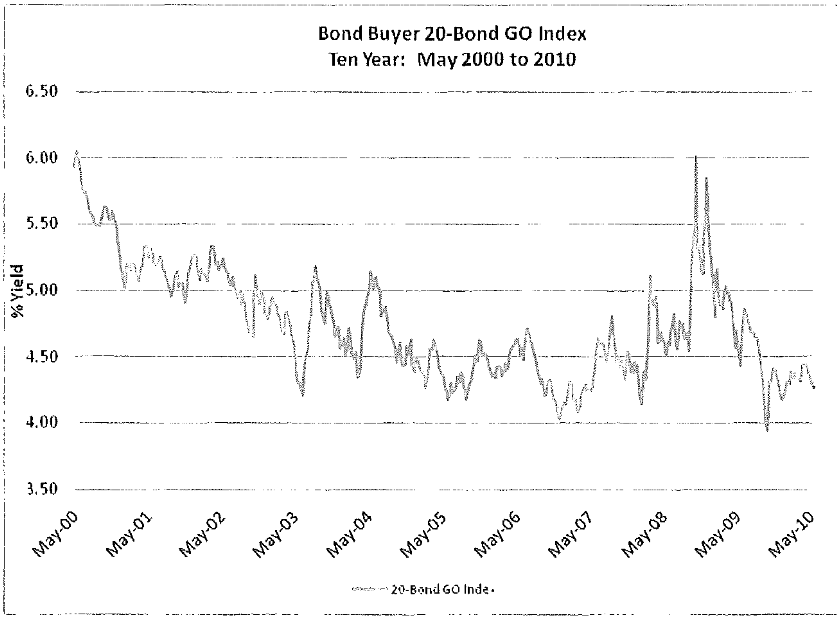
The rating scales for the three rating agencies are as follows:

Moody's	Standard & Poor's	Fitch Ratings
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-

The expected rating for the District with the proper documentation and security should be in the "A" category or ratings.

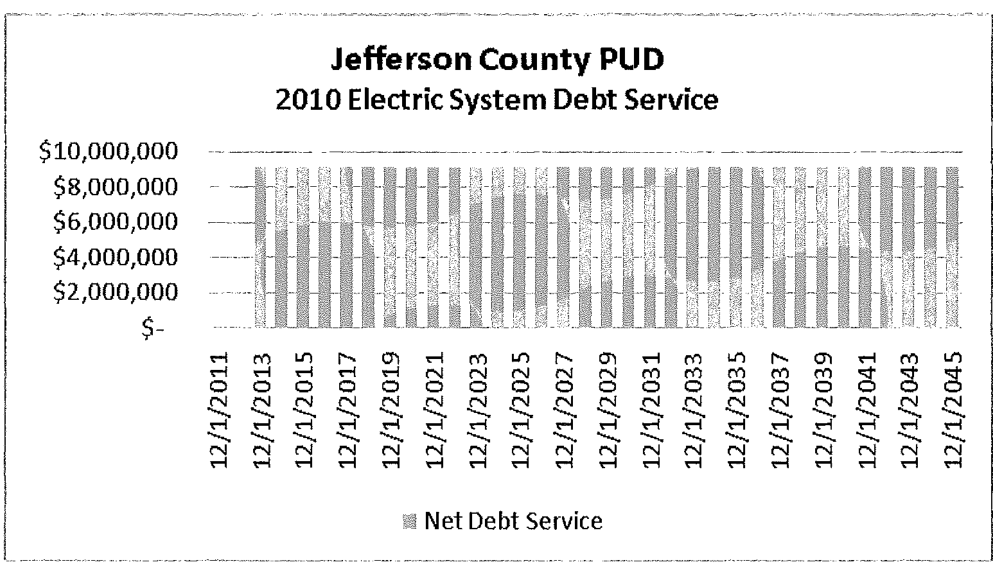
Interest Rates

Interest rates are at historically low rates. This is illustrated by the graph on the following page which shows historical interest rate trends for long term tax-exempt debt. The short term increase in interest rates in 2008 and 2009 is a result of the financial crisis. The RUS borrowing rate currently is approximately 4.5% for 30 year bonds. Taking into account the expected rating on the District's bonds, the current average interest rate for long term publicly sold taxable bonds is 6% to 6.5% and for long term tax exempt bonds is 4.25% to 4.75%.



Bond Structure

The District will have significant flexibility in the structuring of its debt. The current plan is to gradually step up the debt service for the first few years of operation to allow for start up expenses and maintain reasonable rates for the District's rate payers. One example of the structure of the debt service is shown below. This structure assumes that long term debt would be issued in December 2010, with interest capitalized for two years, so that the first debt payment occurs in 2013. With the District's current schedule, the actual issuance of long term debt is not expected to occur for two or three years. However, the structure would be similar. In addition to capitalizing interest, the District has the ability to "backload" the debt service so that more debt is paid in early years. This will assist in reducing cash requirements in the early years of operation. The amount of borrowing shown on the graph is sufficient for acquisition, but additional funds are expected to be needed for equipment and startup costs.



Consultants

The District has retained the law firms of Ater Wynne LLP and McDowell Rackner & Gibson PC as special counsel, Foster Pepper as bond counsel and A. Dashen & Associates as financial advisor. Brown & Kysar, Inc. has been retained as consulting engineer and will provide studies and analyses required for the RUS financing.