

RatingsDirect®

Summary:

Grant County Public Utility District No. 2, Washington; Wholesale Electric

Primary Credit Analyst:

Paul J Dyson, San Francisco (1) 415-371-5079; paul.dyson@spglobal.com

Secondary Contact:

Doug Snider, Centennial + 1 (303) 721 4709; doug.snider@spglobal.com

Table Of Contents

Rationale

Outlook

Summary:

Grant County Public Utility District No. 2, Washington; Wholesale Electric

Credit Profile

US\$220.06 mil priest rapids hydroelec proj rev rfdg bnds taxable ser 2020Z-2 due 01/01/2044

Long Term Rating

AA/Stable

New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Grant County Public Utility District No. 2 (Grant PUD), Wash.'s proposed \$220 million series 2020Z-2 (taxable) Priest Rapids Hydroelectric Project revenue refunding bonds. The outlook is stable.

The bonds are being issued to refund various debt outstanding of the PRP.

The ratings reflect our view of the PRP's:

- Unconditional power sales contracts between project owner Grant County PUD and multiple power purchasers for 100% of combined project output;
- Very low production costs at the consolidated PRP of \$18.13 per megawatt-hour (MWh) in 2018, although estimated to increase to about \$24.60 per MWh in 2019 as a result of below-average hydro run-off, but with the district anticipating an average of a very low \$20 per MWh in fiscal years 2020 through 2023;
- Continued successful replacement of fish-friendly turbines and other measures that have resulted in reduced spill, enhanced project economics, and compliance with environmental regulations, with additional improvements ongoing;
- Generally solid operating performance, including a plant availability factor of 86% in 2018; and
- Continued adequate financial performance, with power purchasers, including the district, paying their share of project costs plus 15%, such that debt service coverage (DSC) is consistently about 1.15x.

Partly offsetting the above strengths, in our view, are Grant PUD's:

- High capital requirements associated mostly with turbine and generator restoration and powerhouse improvements, but also with regulatory compliance and license implementation, which could put pressure on the long-term competitiveness of the project's production costs, although management expects per unit costs to remain well below Bonneville's firm priority rate over the next five years; and
- High project debt burden, with debt to capitalization of 80%, although management anticipates a reduction in borrowing costs given that it will fund a sizable portion of the five-year PRP capital improvement plan of \$412 million with equity contributions directly from the electric system.

The business profile score is '3' on a 10-point scale, with '1' being the strongest. The business profile reflects our view of the PRP's extremely competitive cost of power, moderate operating risks, good economics of service territories, and strong management practices and policies.

The series 2020Z-2 bonds and bonds previously issued in 2010 or later are secured by a lien on the net revenue of the consolidated PRP project. Bond provisions include a 1.15x rate covenant on both parity and junior-lien debt, a 1.15x additional bonds test, and a debt service reserve fund capitalized at maximum annual interest. Parity bonds issued prior to 2010 for each of the two hydro developments are also payable from net revenue of the combined PRP, pursuant to the resolution and prior resolutions. In 2010, the district consolidated the two developments into one system, PRP. This consolidation had been planned since the late 1990s and simplifies administration and financing, provides cost savings, and signifies that power purchasers consider the combined developments a single project. In addition, the Federal Energy Regulatory Commission provided a single license that covers both projects.

For more information on the district and the PRP, see our report published Dec. 31, 2019 on RatingsDirect.

Outlook

The stable outlook reflects our anticipation that long-term contracts through 2052 will continue to provide a stable revenue stream. Strong project economics provide credit stability and override credit risks regarding regulation, environmental mandates, and member credit quality. We anticipate that the project will remain competitive with other generators or resource options in the region despite the high capital investment required to comply with fish species protection requirements and other improvements.

Upside scenario

Given high project debt and capital needs as well as management's projection of rising per unit power costs, we do not anticipate raising the ratings during the next two years. Also limiting rating upside is our expectation that DSC is unlikely to materially improve.

Downside scenario

We do not anticipate lowering the ratings over the next two years given the competitive cost of power, but could do so in the unlikely event that costs become no longer competitive on a sustained basis, or if other operating risks arise.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.