



Rating Action: Moody's assigns Aa3 to Grant County Public Utility District 2, WA's Series 2020 Z-2 bonds. Outlook is stable.

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Approximately \$220 million of debt affected.

New York, March 03, 2020 -- Moody's Investors Service, ("Moody's") has assigned a Aa3 rating to Grant County Public Utility District 2, Washington's (Grant PUD) \$220 million of Priest Rapids Hydroelectric Project Revenue Refunding Bonds, 2020 Series Z-2 (Taxable). The outlook is stable.

RATINGS RATIONALE

Grant PUD's Aa3 rating assignment reflects the district's ownership of highly competitive hydro generation, low retail rates, benefits of risk management actions including extensive hedging activities, and forecasted increase to its Moody's adjusted debt service coverage ratio (DSCR) to above 2.0x. The utility's rising DSCR and expected continuation of its extensive hedging program are key positive considerations that partially offsets the district's plan to reduce its liquidity by almost half to around \$150 million by 2021, which is a credit negative all else equal. The rating also considers the district's resiliency to stress cases such as the loss of industrial customers although it would heighten the utility's exposure to the wholesale market prices and lower its financial metrics.

The rating assignment also recognizes Grant PUD's exposure to wholesale power price and hydrology risk over the longer term, a large capital program, below average wealth levels in the service territory, and concentration of retail sales to industrial customers. Through September 2020, hydrology and wholesale power price risk is largely reduced by an exchange contract (Pooling Agreement) with Shell Energy North America (US), L.P. (Shell: A2, stable) and 'slice' sales. We understand the district is seeking to enter into new contractual arrangements once the Pooling Agreement with Shell expires.

RATING OUTLOOK

The stable rating outlook considers the district's forecast of DSCR above 2.0x and Moody's adjusted unrestricted liquidity generally between \$150-200 million resulting in an excess of 300 days cash on hand over the next five years.

FACTORS THAT COULD LEAD TO AN UPGRADE

- The district's rating could be upgraded if the utility's service area strength substantially improved or if the district sustained consolidated DSCR above 3.0x and significantly strengthened its liquidity.

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Consolidated DSCR drops below 2.0x or unrestricted liquidity drops materially below \$150 million on a sustained basis
- Major load loss on a sustained basis
- Failure to execute new pooling agreement or similar hedging agreements
- Significant operating problems at the Wanapum and Priest Rapids plant (PRP)
- Large cost overruns at PRP's capital program

LEGAL SECURITY

Electric System's bonds have a pledge of net electric system revenues and a rate covenant of 1.25x DSCR for senior debt and 1.10x for junior lien debt. Draws and deposits from the R&C fund can be used to smooth the DSCR rate covenant. The additional bonds test is 1.25x DSCR. The debt service reserve is sized to the lower of 125% of average annual debt service, maximum annual debt service or 10% of initial principal. Funding of the reserve consists of a surety from Assured Guaranty Municipal Corp. (Assured; A2 stable) and cash. On a fully consolidated basis with PRP, Grant PUD's debt service reserve after incorporating cash and sureties from investment grade monolines approximates ten months of total debt service.

PRP bondholders benefit from a pledge of net revenues of the combined Wanapum and Priest Rapids hydro projects and a 1.15x rate covenant. The Electric System has also covenanted to pay for all of PRP's costs including debt service whether

or not PRP produced or is capable of producing power and energy. The Electric System's payment obligation to PRP is senior to the Electric System's debt service if PRP produces power and on parity if PRP no longer produces power. The PRP bonds, including the Series 2020 Z-2 bonds, have a debt service reserve account sized to twelve months maximum interest net of any federal interest subsidy. These provisions are weaker than typical issuers' in the rating category. PRP's debt service reserve is funded by a combination of cash and sureties. Around half of the sureties are provided by non-rated insurers. Separately, PRP must also maintain a minimum \$12 million in the Renewal, Replacement, and Contingency fund.

USE OF PROCEEDS

Proceeds from the issuance of the Priest Rapids Project Revenue Refunding Bonds, Series 2020 Z-2 will be used to refund a portion of the 2014 Series A and 2015 Series A Priest Rapids Project bonds, fund reserves and pay transaction costs.

PROFILE

Grant PUD operates a utility system that primarily generates and delivers electricity to approximately 50,000 retail customers in Grant County, which is located in central Washington State. The district also provides wholesale fiber-optic services and PRP generates electricity for sale to a number of investor owned utilities and municipal public power entities. The district's service area comprises of 2,777 square miles and has a population of around 97,000 as of 2018.

METHODOLOGY

The principal methodology used in this rating was US Public Power Electric Utilities with Generation Ownership Exposure Methodology published in August 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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