

RatingsDirect®

Summary:

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

Primary Credit Analyst:

Paul J Dyson, Austin + 1 (415) 371 5079; paul.dyson@spglobal.com

Secondary Contact:

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

Table Of Contents

Credit Highlights

Outlook

Related Research

Summary:

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

Credit Profile

US\$47.225 mil elec sys rev rfdg bnds ser 2023-V due 01/01/2044

Long Term Rating

AA+/Stable

New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Grant County Public Utility District No. 2 (Grant PUD, or the district), Wash.'s proposed \$47.2 million series 2023-V electric system revenue refunding bonds.
- The outlook is stable.

Security

Net revenue of the district's electric system secures the bonds, and proceeds will refund the district's series 2020-S mandatory put bonds.

As of Dec. 31, 2022, the district had \$278 million in electric system debt and \$1.4 billion in project debt at its Priest Rapids Project (PRP), including subordinate intersystem loans from the electric system; the district's approximate share of PRP debt is about \$1.1 billion. The PRP consists of the Wanapum and Priest Rapids developments. PRP off-takers, including the district itself, service a large portion of project debt under take-or-pay, cost-of-service contracts.

A rate covenant requires net revenue sufficient to provide 1.25x annual debt service coverage, and the district may issue additional bonds if net revenue for any 12 consecutive months of the previous 24 months provides 1.25x maximum annual debt service coverage. Net revenue may be adjusted for adopted rate increases, system improvements, and new customers. Management may use transfers from the reserve and contingency fund to meet the rate covenant, but not to meet the additional bonds test.

Separately, with regard to the PRP bonds outstanding, the electric system is obligated, whether or not the PRP is producing power or capable of doing so, to pay all project costs, including its share of debt service, not otherwise paid by other purchasers, and this obligation is payable as an operating expense prior to electric system direct debt service. The electric system covenants to set rates as it deems necessary to make such payments, in the event that required payments are not otherwise made.

Credit overview

The rating reflects our opinion of the district's exceptional market position, low-cost and non-carbon-emitting resource portfolio, and sophisticated and tenured management team, and our view of the district's track record of maintaining very robust fixed-charge coverage (FCC) and liquidity. The rating also incorporates our view of the district's improved

financial stability given hydro variability hedging strategies.

The rating reflects our view of the district's:

- Extremely low-cost resource portfolio and prudent environmental compliance coupled with slice-of-system sales that promote predictability and stability in wholesale revenue and overall margins;
- Credit-supportive service area economic fundamentals, with a growing customer base that generated very strong retail energy demand growth averaging 5% annually during 2018 to 2022, spurred by the industrial sector and the attractiveness of the district's low-cost power;
- Exceptional coverage, with FCC of no less than 2x since and including 2015, including 2.4x in fiscal 2022;
- Ample liquidity and reserve position, with available reserves at \$134 million, or 192 days' cash, as of fiscal 2022; and
- Low debt with debt to capitalization of just 20% as of fiscal 2022 but a higher 50% with the inclusion of debt and equity related to the district's share of the PRP.

Partly offsetting is the above strengths, in our view, are the district's:

- Below-average income levels in the service territory with unemployment exceeding the national rate,
- Resource concentration in hydropower and lack of visibility to fuel mix provided by slice sale counterparties, and
- Large capital plan totaling \$484 million with 30% to be debt-financed.

Environmental, social, and governance

Environmental risks are limited, as the district sources power through non-carbon-emitting hydroelectric, nuclear, and wind resources, although unidentified resources that counterparties provide in slice-of-system sales meet a large portion of load. Nonetheless, these slice sales are finite and at the district's option, so when they expire the district's resulting resource portfolio is shielded from the uncertainty, costs, and operational challenges of legislative and regulatory initiatives to reduce greenhouse gas emissions. The district does face considerable and seemingly perpetual costs of remediating fish and wildlife habitats surrounding its hydroelectric facilities, along with the costs of related litigation and regulatory proceedings.

Social risks exist given higher-than-average unemployment and below-average income levels, but the district's extremely low rates offset these risks. Following stronger-than-expected U.S. economic growth through the third quarter of 2023, S&P Global Economics believes that recent business and consumer activity are not sustainable and projects slowing economic activity in the fourth quarter of 2023, along with tepid economic growth of 1.3% to 1.4% in 2024 and 2025. (See "Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted," published Sept. 25, 2023, on RatingsDirect). Although inflation is softening, S&P Global Economics projects elevated interest rates through 2024. Consequently, we are monitoring the strength and stability of public power utilities' revenue streams for evidence of delinquent payments or other revenue erosion.

We view the utility's governance factors as credit supportive, as they include full rate-setting autonomy as well as strong policies, forecasting, cyber security, physical security, and planning practices.

Outlook

The stable outlook reflects our assessment of the district's extremely low-cost power supply resulting in market prices that are substantially below the prevailing market. The outlook also reflects our view of the absence of significant additional debt needs, the district's exceptionally strong financial position, and our expectation that management will continue to implement budget adjustments or enter into hedging agreements that promote revenue predictability and stability.

Downside scenario

We don't expect to lower the rating during our two-year outlook period given the district's significant rate flexibility resulting from its extremely low-cost power supply, and our view that the utility has considerable cushion for erosion in FCC and liquidity.

Upside scenario

We don't expect to raise the rating over the next two years given Grant's moderate concentration in leading customers and industrial sales, below-average income levels, asset concentration, and lingering net exposure to variable hydrology.

For more information on the long-term rating, see our report published June 30, 2023.

Grant County Public Utility District No. 2 key credit metrics

	--Fiscal year ended Dec. 31--		
	2022	2021	2020
Operational metrics			
Electric customer accounts	54,041	53,213	52,228
as % of electric retail revenue from residential customers	19	20	21
Top 10 electric customers' revenues as % of total electric operating revenue	46	45	40
Service area median household effective buying income as % of U.S.	N.A.	87	98
Weighted average retail electric rate as % of state	62	62	65
Financial metrics			
Gross revenue (\$000s)	400,280	332,351	307,133
Total operating expenses less depreciation and amortization (\$000s)	254,369	216,723	184,470
Debt service (\$000s)	14,031	8,100	7,867
Debt service coverage (x)	10.4	14.3	16.2
Fixed-charge coverage (x)	2.4	2.1	2.3
Total available liquidity (\$000s)*	134,049	136,789	175,820
Days' liquidity	192	230	348
Total on-balance-sheet debt (\$000s)	278,266	283,765	284,755
Debt to capitalization (%)	20	21	23

*Includes available committed credit line balances, where applicable. Debt service coverage--Revenue minus expenses divided by debt service. Fixed-charge coverage--Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy). N.A.--Not available.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Copyright © 2023 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.spglobal.com/ratings (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.spglobal.com/usratingsfees.

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