



Fitch Rates Grant County PUD, WA's Rev Bonds 'AA'; Outlook Stable

Fitch Ratings - New York - 02 March 2020:

Fitch Ratings has assigned a 'AA' rating to the following bonds issued by the Public Utility District (PUD) No. 2 of Grant County, WA (the district):

--Approximately \$220.06 million Priest Rapids Hydroelectric Project revenue refunding bonds series 2020Z-2 (taxable).

The bonds are being issued to defease and refund various outstanding Priest Rapids Project revenue bonds series 2014A and 2015A for present value debt service savings and pay costs of issuance. The maturities of the bonds are not materially extended. The bonds sold via negotiated sale the week of Feb. 24, 2020.

The Rating Outlook is Stable.

SECURITY

The Priest Rapids Hydroelectric Development bonds are payable from net revenues of the PRP.

KEY RATING DRIVERS

Revenue Defensibility: 'a'; Significant Wholesale Sales Supported by Various Contracts; Low Rates

A majority of the district's ample capacity is used to meet its domestic retail customer needs, with the remainder being sold under a mix of contracted sales and market priced auctions. The district manages wholesale contracts and hedging agreements to insulate the district from price and hydro-variability risks, though the district's margins remain exposed to a level of merchant risk that constrains Fitch's assessment of revenue defensibility. Additionally, the district remains exposed to revenue concentration and counterparty risks, which is partially mitigated through collateral postings and the ability to remarket its very low cost power upon counterparty default.

Operating Risk: 'aa'; Ample, Very Low Cost Hydro Resources

The district's rating reflects its valuable hydropower generation resources that provide exceptionally low cost electric power calculated by Fitch at a very low 3.5 cents per KWh in fiscal 2018. The district's capital plans continue to increase as modernization investments are made and the full amount of future capex required due to FERC relicensing is determined.

Financial Profile: 'aa'; Strong Financial Profile

The district's liquidity remains strong with coverage of full obligations increasing to 2.3x in fiscal 2018, and days cash on hand (DCOH) is very healthy at 474. Capital spending and borrowing have increased in recent years, and as of FYE 2018, debt was over \$1.3 billion. Nonetheless, leverage remains adequate for the risk profile with the leverage ratio of 6.2x in fiscal 2018. Fitch's forward look includes financial performance that remains supportive of the rating through 2023.

Asymmetric Additional Risk Considerations

There are no asymmetric additional risk factor considerations affecting the final rating.

RATING SENSITIVITIES

Developments that May, Individually or Collectively, Lead to a Positive Rating Action:

--A consistently higher funding level in rates to support capex that produces a material lower leverage profile could result in upward rating movement.

Developments that May, Individually or Collectively, Lead to a Negative Rating Action:

--The district's ability to effectively manage its operations, including the various hedging agreements, will be key to maintaining a strong revenue defensibility assessment. Changes in the district's revenue source characteristics and increased exposure to competitive pressures could put downward pressure on the rating.

--Unexpected sizable increases for capital spending or higher borrowing requirements that reduce financial margins and raise leverage could place negative pressure on the rating.

CREDIT PROFILE

The district is a vertically integrated electric utility serving retail customers throughout Grant County, WA with a retail customer base of approximately 50,688. The district maintains and accounts for two operating systems: the electric distribution system (comprised of roughly 4,351 miles of transmission and distribution lines) and the generating assets. The Priest Rapids and the Wanapum hydroelectric development generating assets, collectively the PRP, have a nameplate generating capacity of 2,157 MW.

The district historically issued separate debt that was payable from each respective development's net revenues, but in 2010 the district consolidated the developments into one system called the PRP and now issues PRP debt payable from the combined developments. The PRP hydro developments were combined under a new power sales contract, effective Nov. 1, 2009, that extends through the life of the FERC license expiring April 1, 2052. Under the FERC license, the district's distribution system is entitled to 63.3% of the total physical output of the PRP, and is required to sell 30% of the output within the region based on market prices.

Fitch rates the electric distribution system and the separately secured hydro developments as a single, integrated system, given that the project debt is legally bound to the distribution system, making it the ultimate obligor. Development-specific debt is still outstanding but is on parity with the combined system debt.

ANALYTICAL CONCLUSION

The 'AA' IDR and bond ratings reflect the district's continued strong financial performance, very healthy liquidity and strong coverage. The district benefits from its sizable hydroelectric generating resources, collectively the Priest Rapids Project (PRP), that produce exceptionally inexpensive power used to meet retail needs. Fitch's assessment of revenue defensibility takes into account both the amount of surplus energy sold into the wholesale energy market under short- and medium-term contracts and a concentrated industrial customer base. The rating also takes into account the district's various strategies used to mitigate these risks that have successfully produced stable and healthy financial performance in recent years.

For more information on the issuer, see "Fitch Rates Grant County PUD, WA's Rev Bonds 'AA'; Outlook Stable," dated Dec. 23, 2019.

Date of relevant committee: Dec. 20, 2019.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Date of Relevant Committee

20 December 2019

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Grant County Public Utility District No. 2 (WA)		
Grant County Public Utility District No. 2 (WA) /Priest Rapids - Project Revs/1 LT	LT AA ● Affirmed	AA ●

Additional information is available on www.fitchratings.com

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Applicable Criteria

U.S. Public Power Rating Criteria (pub. 03 Apr 2019)
Public Sector, Revenue-Supported Entities Rating Criteria (pub. 07 Nov 2019)

Additional Disclosures

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