

## **FITCH RATES GRANT COUNTY PUD, WA'S REV BONDS 'AA'; OUTLOOK STABLE**

Fitch Ratings-San Francisco-06 November 2017: Fitch Ratings has assigned a 'AA' rating to the following bonds issued by the Public Utility District No. 2 of Grant County, WA (the district):

--\$49.7 million electric system revenue refunding bonds, series 2017-N (Mandatory Puts).

Purpose: Proceeds will be used to refund the outstanding series 2014-K (SIFMA Index) electric system revenue bonds and pay the costs of issuance. The bonds will be sold via negotiation the week of Nov. 13.

In addition, Fitch has affirmed the 'AA' rating on the following bonds issued by the district:

--\$178.5 million Priest Rapids Project (PRP) revenue and refunding bonds, 2015 series A, B and M;

--\$244.8 million (pre-refunding) electric system revenue and refunding bonds, series 2011, 2013, and 2014;

--\$761.9 million PRP revenue and refunding bonds;

--\$61.2 million Priest Rapids Hydroelectric Development revenue bonds;

--\$90.5 million Wanapum Development revenue bonds.

The Rating Outlook is Stable.

### **SECURITY**

The electric system bonds are payable from the electric system revenue bond fund after payment of distribution system operating expenses, inclusive of PRP resource costs.

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

### **KEY RATING DRIVERS**

**COUNTYWIDE ELECTRIC SERVICE PROVIDER:** The district is a vertically integrated electric service provider to Grant County with a retail customer base of approximately 46,150. The district maintains and accounts for two operating systems - the electric system and the PRP. Fitch rates the district on a consolidated basis given the integrated nature of the systems and the obligations.

**PRIEST RAPIDS PROJECT:** The district owns and operates the valuable PRP, which consists of the Priest Rapids and Wanapum dams and hydroelectric generating facilities. The exceptionally low-cost and flexible power resource is used to meet retail needs with surplus energy sold wholesale under short and medium term contracts.

**AMPLE GENERATION CAPACITY:** The distribution system is entitled to 63.3% of the physical output of the PRP and has the ability to access 30% more through a financial entitlement, which is more than sufficient to meet its current and anticipated retail customer load.

**HYDROLOGIC RISKS REDUCED:** The district entered into a power pooling agreement with Shell Energy North America LP (SENA) that largely offloads the hydrologic risks associated with PRP in exchange for SENA provided firm power sufficient to meet the system's retail needs.

Counterparty credit risks are offset by the district's ability to recall the power for in the event of a SENA default and the agreement's monthly financial netting arrangement.

**STRONG FINANCIAL PROFILE:** The district's consolidated financial profile is strong with Fitch-calculated debt service coverage of 2.13x and robust cash balances of \$276.9 million, or 805 days cash, at the end of 2016.

**INDUSTRIAL CUSTOMER CONCENTRATION:** The district's retail customer base is somewhat concentrated with the 10 largest retail customers accounting for 34% of retail revenues in 2016. This risk is mitigated by the district's below market cost of power that allows for the ability to readily sell excess power into the wholesale markets, reducing the potential impacts from unexpectedly losing a larger customer.

#### RATING SENSITIVITIES

**MANAGEMENT OF POOLING CONTRACT:** Grant County Public Utility District No. 2's ability to effectively manage its operations together with the power pooling agreement with SENA will be key to maintaining stable financial performance. Monthly netted payments that are substantially larger than anticipated and negatively affect financial metrics would put downward pressure on the rating.

#### CREDIT PROFILE

The district's electric utility operations are comprised of its distribution system and its hydroelectric generating project, PRP. PRP is separately financed and accounted for relative to the distribution system. It has a nameplate generating capacity of 2,123 MW, provided from the Priest Rapids and the Wanapum hydroelectric developments.

The distribution system is entitled to 63.3% of the PRP physical output and the remaining generated power is sold through a combination of annual auctions and long-term take-or-pay contracts. The distribution system has the ability to take up to a maximum of 93.3% of PRP's combined output (63.3% physical and 30% financial), which provides flexibility as the system's retail load continues to grow.

The Wanapum and Priest Rapids hydroelectric developments historically issued separate debt that was payable from each respective development's net revenues. The district combined the two developments under PRP in 2010 and now issues debt payable from the combined development. The hydroelectric developments are operated under a single Federal Energy Regulatory Commission license that expires in 2052. Development-specific debt is still outstanding but is on parity with combined PRP debt.

Fitch views the 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.

#### POWER POOLING AGREEMENT

The district entered into a five-year power pooling agreement with SENA on Oct. 1, 2015. Under the five-year agreement, the district will provide SENA with the remaining 53.3% slice portion of output from PRP that the distribution system is entitled. In exchange, SENA will provide the distribution system with firm power sufficient to meet its retail load forecast, adjusted for the portion of load that will be met with other owned resources.

The contract cannot be terminated by either party prior to contract maturity, except in the event of default. The district and SENA both have collateral posting requirements, if their ratings fall below

investment grade (collateral posting is based on 12-month forward looking rolling mark to market, not balance of contract).

The contract's payment structure involves a monthly netting mechanism (60 payments) whereby the district and SENA owe more or less depending on six variables. As of July 2017, the cumulative total of the monthly true-ups has been in favor of the district. However, the district expects to be a net payor by the end of the contract as load growth continues.

Fitch views the agreement as trading hydrological risk for counterparty risk. However, this risk is mitigated by the monthly financial netting arrangement and the district's ability to recall the power in the event of a SENA default.

## STRONG FINANCIAL PROFILE

The district's consolidated financial profile remains strong. Fitch-calculated debt service coverage was solid at 2.13x in 2016. Cash balances increased during the year, rising to \$275.2 million from \$208.1 million due to sound financial performance and the receipt of insurance proceeds relating to the Wanapum dam fracture. Fitch views the district's robust liquidity position favorably.

Financial performance is projected to be relatively stable as the power pooling agreement with SENA reduces some of the volatility associated with wholesale sales and market prices. Future debt issuances are expected to be manageable at this rating level, with additional issuances of \$170.7 million for PRP projects forecast by the end of 2019.

## SERIES 2017-N (MANDATORY PUTS)

The series 2017-N bonds have a mandatory tender date of Dec. 1, 2020. The district has not secured an external liquidity facility or letter of credit to support the repurchase of the bonds. However, this risk is mitigated by the district's robust internal liquidity. No debt service reserve fund supports bond repayment. The additional bonds test (1.25x) and rate covenant (1.25x) match those of other outstanding electric system's bonds issued by the district.

Contact:

Primary Analyst  
Matthew Reilly, CFA  
Director  
+1-415-732-7572  
Fitch Ratings, Inc.  
650 California St, 4th Floor  
San Francisco, CA 94108

Secondary Analyst  
Lina Santoro  
Analytical Consultant  
+1-212-908-0522

Committee Chairperson  
Doug Scott  
Managing Director  
+1-512-215-3725

Media Relations: Alyssa Castelli, New York, Tel: +1 (212) 908 0540, Email: [alyssa.castelli@fitchratings.com](mailto:alyssa.castelli@fitchratings.com).

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## Applicable Criteria

Rating Criteria for Public Sector Revenue-Supported Debt (pub. 05 Jun 2017)

<https://www.fitchratings.com/site/re/898969>

U.S. Public Power Rating Criteria (pub. 18 May 2015)

<https://www.fitchratings.com/site/re/864007>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001