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Ratings

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Summary:

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

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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