



Rating Action: Moody's assigns Aa3 to Benton County PUD 1, WA's electric revenue bonds

29 Nov 2023

New York, November 29, 2023 -- Moody's Investors Service has assigned Aa3 rating to Benton County Public Utility District 1, Washington's (Benton PUD) \$25 million Electric Revenue Bonds, Series 2023. We maintain Aa3 ratings on the district's outstanding parity debt. Post issuance, the district will have \$77.9 million in long-term debt.

RATINGS RATIONALE

The Aa3 rating reflect the large electric distribution system's solid financial metrics and capable management team. Coverage and liquidity are good for the system's size and debt remains low and is expected to stay modest, given the district's long-standing target to maintain a debt-to-capitalization ratio of 38% or less. Energy supply is primarily from Bonneville Power Administration, OR (BPA, Aa1 negative), which exposes the district to resource vulnerability due to BPA's dependence on hydropower. Notably, the district converted to a BPA Load Following customer in October 2023, which is expected to reduce the district's gross power costs and provide more price certainty going forward. Rates are set in two-year increments and cost is correlated to retail revenues. Previously, the district had been a Block/Slice customer and was subject to the wholesale market pricing. The district also indicates they currently meet Washington State's renewable portfolio standard and are well positioned to meet the WA Clean Energy Transformation Act goals prior to deadlines.

RATING OUTLOOK

Outlooks are not typically assigned to local governments with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Substantial and sustained improvement in liquidity and coverage
- Reduced exposure to resource vulnerability

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Significant declines in coverage or liquidity
- Sustained customer and demand loss that leads to revenues declines
- Prolonged below-average water years that reduce energy from BPA and increase power costs and volatility

LEGAL SECURITY

The bonds are secured by the district's net revenue pledge, which includes all income (with certain exclusions) net of operating expenses, as well as available reserves in the revenue, construction and bond funds.

USE OF PROCEEDS

Proceeds of the series 2023 bonds will primarily be used to fund planned capital investments. Specifically, the district plan is to build and upgrade transmission lines to improve reliability and safety; build and upgrade substations to modernize protection and controls, replace aged infrastructure and various physical security projects.

PROFILE

The district provides electricity to 939 square miles of Benton County in central Washington, including the cities of Kennewick (Aa3), Prosser and Benton City. Three elected board members govern the district, which is an independent local government. Of 56,895 customers in 2022, 83% were residential. However, of the 1.8-terawatt hours sold to customers in 2022, 43% were sold to residential customers, with 31% sold to general service customers 22% to irrigation customers and 4% to industrial.

METHODOLOGY

The principal methodology used in this rating was US Municipal Utility Revenue Debt Methodology published in April 2022 and available at <https://ratings.moodys.com/rmc-documents/386721>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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