Research Update:

Benton County Public Utility District No. 1, WA Series 2026 Electric Revenue Bonds Rated 'AA-'; Outlook Stable

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Overview

- S&P Global Ratings assigned its ‘AA-‘ long-term rating to Benton County Public Utility District No. 1, (BCPUD or the district) Washington's approximately $47 million series 2026 electric revenue and refunding bonds.
- At the same time, we affirmed our ‘AA-‘ long-term rating on the district’s parity bonds.
- The outlook is stable.

Rationale

Security

The bonds are secured by net revenues from the district’s electric system. Bond provisions include a rate covenant of 1.25x of annual debt service outstanding and additional bonds test of 125% of aggregate maximum annual debt service. The series 2026 bonds are not secured by a debt service reserve fund. As of fiscal year-end Dec. 31, 2025, the district had approximately $76 million of long-term debt outstanding.

Proceeds from the series 2026 bonds will be used to finance improvements to BCPUD’s electric system pursuant to the district’s current capital improvement plan (CIP) and to refinance all or a portion of the series 2016 bonds outstanding.

Credit highlights

The rating reflects the district’s stable financial performance underpinned by prudent management practices and proactive rate-setting practices. The three-year, fixed-cost coverage averaged 1.7x and is projected to average 1.6x over the next five years. Although we expect liquidity will decline over the next few years as BCPUD progresses through its CIP, its reserves and days’ cash on hand projections remain ample and within the district’s policies, and we believe the district has rate-raising flexibility. Furthermore, the district’s load-following power sales agreement with Bonneville Power Administration (BPA) provides greater power cost predictability than the previous block-and-slice agreement, which in our view mitigates the impact of lower projected reserves. The district maintains formal financial policies and regularly updated financial forecasts, which in our view are supportive of proactive planning and effective risk mitigation.

The rating further reflects our view of BCPUD's:

- Weighted-average electric rates that were 25% below the state average in 2024, and despite planned rate increases over the next four years, we expect rates will remain affordable and competitive, given the district's low-cost power portfolio. Nevertheless, because of the high unpredictability of federal policy--along with the economy's stressors and the associated financial pressures consumers are facing--we are monitoring the strength and stability of electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion (see "Economic Outlook U.S. Q3 2026: Resilient To Layered Supply Shocks," June 24, 2026).
- Favorable energy supply from a renewed contract with BPA that expires in 2044, which provides a low-cost, mostly carbon free-energy supply and positively positions the district for energy transition and Washington state climate and energy mandates; and
- Modest debt burden that we expect will only slightly increase with the series 2026 issuance and there is no additional debt issuance anticipated currently.

Partially offsetting the above strengths, in our opinion, are BCPUD's:

- Lack of a power cost adjustment (PCA) mechanism to recover unbudgeted power costs; however, we believe this is mitigated by the combination of conservative budgeting and the district's pre-emptive pass through of BPA costs;
- Exposure to physical risks including wildfire and drought are credit weaknesses in our analysis. The wildfire risk is somewhat mitigated through a wildfire mitigation plan, including electric system hardening measures and vegetation management. Drought translates to variable, and hard to predict, hydrological conditions, and this could affect BPA's generation capability to meet the loads of its off-takers, including the district.

Outlook

The stable outlook reflects our view that over the next two years, the district will maintain financial ratios near recent levels given more predictable costs associated with the load-following agreement with BPA, anticipated modest capital spending and lack of planned additional debt.

Downside scenario

We could lower the rating if the district experiences unbudgeted capital needs or if it is unable to pass through rising power costs to its ratepayers given the lack of a PCA, absent additional revenue enhancement, resulting in a material deterioration of FCC and/or liquidity.

Upside scenario

We could raise the rating if the district achieves robust FCC and liquidity as BPA periodically reassesses the allocation of fixed costs and maintains credit supportive operational, management, and financial policies.

Credit Opinion

Benton County is in southeastern Washington along the Columbia River, 160 miles southwest of Spokane. BCPUD's service territory includes the cities of Kennewick, Benton City, and Prosser, and other nearby areas. The district had approximately 58,600 customer accounts in 2025, and residential customers accounted for about 50% of its retail revenue. We view the amount of residential revenue as providing substantial stability. The customer growth rate is between 1.0% and 1.5% annually, which is modest and load growth typically is only a fraction of that and is also largely weather dependent. The district’s top 10 customers account for about 25% of electric operating revenue, while the top customer is about 10% of electric operating revenue. Of the top 10 customers, six are classified as large irrigation customers, with higher electric demand in the summer months.

BCPUD is a distribution-only utility that purchases most of its electricity from long-term contracts and renewable energy credits. . Effective Oct. 1, 2023, the district has a load-following power sales agreement with BPA through 2028. The district and BPA signed a new load-following contract that will be effective Oct. 1, 2028, and run through Sept. 30, 2044. The load following contract reduces the district’s market risk and adds predictability, which we view positively.

Climate And Other Evolving Factors

We view BCPUD’s climate transition risk as credit neutral. The district sources about 90% of its power through non-carbon-emitting hydroelectric, nuclear, and wind resources, largely insulating it from the uncertainty, costs, and operational challenges of legislative and regulatory initiatives to reduce greenhouse gas emissions, including several Washington State mandates. In our view, given that BPA's hydroelectric and nuclear qualify in the state's renewable energy targets, and the district has power purchase agreements for wind and hydropower and renewable energy credits, it is well-positioned to meet these requirements. However, these mandates, alongside ongoing BPA litigation measures related to fish and other wildlife habitats that are passed through to customers, could increase the energy costs in Washington and affect affordability for the district’s ratepayers.

Benton County Public Utility District No.1, Washington--Key credit metrics

	--Fiscal year ended Dec. 31--		
	2025	2024	2023
Operational metrics			
Electric customer accounts	58,679	57,827	57,263
% of electric retail revenues from residential customers	49	49	49
Top 10 electric customers' revenues as % of total electric operating revenue	26	26	25
Service area median household effective buying income as % of U.S.	110	109	111
Weighted average retail electric rate as % of state	N.A.	75	79
Financial metrics			
Gross revenues ($000s)	157,556	159,898	161,389
Total operating expenses less depreciation and amortization ($000s)	127,195	129,824	138,880
Debt service ($000s)	6,978	6,820	5,829
Debt service coverage (x)	4.4	4.4	3.9
Fixed-charge coverage (x)	1.9	1.7	1.6
Total available liquidity ($000s)*	50,423	65,274	58,908

Benton County Public Utility District No.1, Washington--Key credit metrics

	--Fiscal year ended Dec. 31--		
	2025	2024	2023
Days' liquidity	145	184	155
Total on-balance-sheet debt ($000s)	76,340	80,273	84,071
Debt-to-capitalization (%)	27	30	33

*Total available liquidity includes available committed credit line balances, where applicable. Debt service coverage--Revenues 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.

Ratings List	
New Issue Ratings	
US$47,000,000 Benton County Public Utility District No.1, Washington, Electric Revenue Bonds, Series 2026, dated: Date of Delivery, due: November 1, 2051	
Long Term Rating	AA-/Stable
Ratings Affirmed	
Public Power	
Benton Cnty Pub Util Dist #1, WA Retail Electric System	AA-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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 https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.