FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Benton County PUD No. 1, WA's Electric Revenue Bonds 'AA-'; Outlook Stable

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Fitch Ratings - New York - 28 Nov 2023: Fitch Ratings has assigned a 'AA-' rating to the following bonds issued by Benton County Public Utility District No. 1, WA (Benton PUD or the district):

--Approximately $25 million electric revenue bonds series 2023.

Bond proceeds will be used to finance a portion of Benton PUD's capital improvement plan and to pay costs of issuing the Series 2023 bonds. The bonds are expected to price on Dec. 7, 2023 via negotiated sale.

Fitch has also affirmed Benton PUD's Issuer Default Rating (IDR) and the following bonds at 'AA-':

--Approximately $57 million electric revenue refunding bonds, series 2010, 2016, 2020A and 2020B.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR

Benton County Public Utility District No. 1 (WA)	LT IDR	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
Benton County Public Utility District No. 1 (WA) /Electric System Revenues/1 LT	LT	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

The 'AA-' rating reflects Benton PUD's very strong financial profile in the context of its very low operating risk and strong revenue defensibility. The strong revenue defensibility assessment is supported by very strong rate flexibility and an improving service territory, but also reflects a reliance on wholesale revenues and a customer base that exhibits some concentration.

Wholesale revenue accounted for over 18% of total operating revenues in the last two fiscal years. As of Oct. 1, 2023, the district transitioned from its Block and Slice power sales contract with the Bonneville Power Administration (BPA; IDR AA-/Stable) to a load following contract with BPA through Sept. 30, 2028. The transition to load following will reduce both hydro variability in the district's power supply and exposure to competitive wholesale revenues.

While the district will forgo the opportunity for above-budget wholesale revenues in good water years, the district will reduce power supply risk in below-average water years and the costs associated with balancing supply and demand throughout the year. While the district's revenue source characteristics could improve as a result, the overall revenue defensibility assessment is unlikely to be raised given the customer concentration.

Operating costs have risen to a five year high of 7.94 cents/kWh in 2022, but remain comparatively very low. Benton's purchased power contract for 50MW of capacity from the Frederickson combined cycle natural gas plant expired in August 2022. The capacity was not needed to meet load requirements, so the district does not plan to replace the contract, providing cost savings.

SECURITY

Bonds are payable from the net revenues of the electric system.

KEY RATING DRIVERS

Revenue Defensibility - 'a'

Competitive Wholesale Revenues to Decline, Customer Concentration Asymmetric Credit Factor

Benton PUD's revenue defensibility is supported by the exclusive right to provide retail electric service throughout Benton County, but is limited by a customer base that, while growing (1.3% per annum over the last five years), exhibits concentration. Benton PUD's single largest customer accounts for roughly 10% of revenue and the 10 largest for about 25%. Moreover, the five largest irrigation customers typically provide upwards of 20% of revenue given the influence of agriculture across the region. Household income metrics across the area are strong and unemployment remained higher than the national average in 2022. More recent 2023 data shows unemployment metrics tracking closer to the national average, which could improve the service area characteristics assessment. However, the overall Revenue Defensibility assessment is unlikely to improve given the asymmetric customer concentration credit factor.

Wholesale revenues have accounted for between 10% and 20% of district revenues over the last five years, and vary with hydrological conditions and market prices. However, wholesale revenues are expected to decline following the change in the BPA contract that occurred on Oct. 1, 2023, and could improve revenue source characteristics as revenues will be provided solely from retail sales.

The district has the ability to independently set its own electric rates. Rate affordability is very high with average annual electric costs accounting for a very low 1.7% of MHI. Modest base rate increases may be implemented in 2025 and 2026, but rate affordability is expected to remain very strong. The rate structure does not include an automatic power cost adjustment factor, but wholesale power and transmission rate adjustments from BPA occur on a consistent schedule every other year, resulting in cost stability within the district's budget year.

Operating Risk - 'aa'

Very Low-Cost Hydroelectric Power Supply, Change in BPA Contract

Benton PUD's operating risk assessment is driven by its very low operating cost burden, averaging 7.17 cents per kWh over the last five years. Operating costs were slightly higher at 7.94 cents/kWh in 2022 due to more expensive energy purchases to meet higher customer demand. The district's power supply is provided nearly entirely by its rights to preference power from BPA. The aforementioned contract change will reduce the district's exposure to market energy purchases, providing greater stability to power supply costs beginning in 2023 for the remaining term of the contract. Replacement contract discussions for the period beginning in 2028 are underway between BPA and its customers, including the district. Additionally, the district's purchased power contract with the higher-priced Frederickson natural gas plant expired at the end of August 2022, which will result in cost savings.

Operating cost flexibility is weaker due to the concentration in a single fuel type, hydroelectric generation. However, this weakness does not outweigh the benefits of the competitive cost of long-term power supply provided by BPA. The district is fully resourced to meet the state's 15% renewable portfolio standard (RPS) with its wind power contracts and Renewable Energy Credits (RECs) purchases. The district is also positioned to the meet Washington's clean energy target of carbon-free power supply by 2045 given the hydroelectric and nuclear power supply delivered by BPA.

Relatively heightened short-term capital spending related to reliability and growth objectives is viewed as manageable and capital reinvestment levels are healthy. Management anticipates the five-year capital plan cost at approximately $119.0 million and will be primarily funded from revenues, supplemented by the current 2023 series issuance.

Financial Profile - 'aa'

Very Low Leverage Expected to Persist

Benton PUD's financial profile is very strong. Leverage, measured as net adjusted debt to adjusted funds available for debt service, remained relatively stable over the last five years, ranging between 4.9x and 6.3x despite some volatility in operating earnings. The ratio was a very low at 5.3x in 2022. COFO was adequate at 1.4x in 2022 and in line with historical ratios. Total liquidity and cash on hand totaled 144 days and 122 days, respectively, in 2022, and remains neutral to the rating.

Operating performance is expected to remain relatively stable going forward. Leverage is expected to remain below 7x over the next five years in both Fitch's Analytical Stress Test base and stress case, and is supportive of the assessment and rating.

Asymmetric Additional Risk Considerations

No asymmetric additional risk considerations affected the rating.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Leverage consistently over 8x in Fitch's base or stress scenarios.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Sustained and material decline in leverage below 5x in Fitch's base and stress scenarios;

--Improved revenue defensibility assessment, which could occur with a decline of wholesale revenues following the change in the power supply contract with BPA, and/or an improvement in service area characteristics.

PROFILE

Benton PUD provides retail electric and broadband services in a 939 square-mile service area of Benton County, WA, with the majority of its customer base located within the cities of Kennewick, Prosser and Benton City. The county is located in south central Washington, along the border of Oregon. The district does not serve portions of Benton County including the cities of West Richland, Richland, and some rural areas. It also does not serve the significant operations by the U.S. Department of Energy on the Hanford Reservation.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The ESG Relevance Score of '2' for GHG Emissions & Air Quality for Benton County PUD varies from the public power sector guidance score of '3' since carbon-free systems (hydro, wind, nuclear, biomass and biowaste, geothermal) are not significantly exposed to the generation of GHG emissions from operations.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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APPLICABLE CRITERIA

U.S. Public Power Rating Criteria (pub. 03 Mar 2023) (including rating assumption sensitivity)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Apr 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Benton County Public Utility District No. 1 (WA)	EU Endorsed, UK Endorsed

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