MOODY'S RATINGS

CREDIT OPINION
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Snohomish County P.U.D. 1, WA Electric Ent.

Update to key credit factors

Summary

Snohomish Public Utility District No. 1's (SnoPud; Aa2 stable) credit profile reflects a strong and diverse service area covering all of Snohomish County, WA (Aa1 stable), the district's conservative management and SnoPud's historical willingness to raise rates when necessary, including a recent 5.8% increase effective April 1, 2024. Further supporting the district's credit quality is its long-term power supply agreement with Bonneville Power Administration (BPA, Aa1 negative) that provides for most of the utility's energy requirements and strong consolidated financial metrics in the 'Aa' to 'Aaa' category.

The utility's credit profile also incorporates some wholesale price exposure, modestly above average retail rates for the state and hydrology risk from owned hydro power plants and the slice portion of the power supply contract with BPA contract. In response to weaker recent hydrology conditions SnoPud has elected to switch to BPA's Load Following contract-type starting in late 2025 instead of its historically used Block/Slice contract, which management believes will provide improved cost predictability and limit exposure to fluctuations in local water conditions.

For 2023, Moody's consolidated debt service coverage ratio (DSCR) for SnoPud improved to 4.30x compared to an average of almost 2.0x from 2017 to 2019 mostly given the more than 40% decline to scheduled annual debt service that began in 2020 and to a lesser extent, higher electricity demand from a recovering local economy. Looking forward, we expect the district to maintain DSCR at or above 3.0x and liquidity between 200-240 days cash on hand.

Credit strengths

» Strong service area

» Conservative management

» Power supplied mostly by BPA under long term agreement

» Demonstrated willingness to raise rates when necessary

» 'Aa' to 'Aaa' financial metrics

» Low carbon transition risk exposure

Credit challenges

» Moderate hydrology and wholesale price risk

» Modestly above average retail rates

» Electric system's debt service reserve sized only to maximum interest

Rating outlook

The stable outlook reflects our expectation of continued strong financial performance including consolidated DSCR averaging around 3.0x times and strong liquidity between 200-240 days cash on hand.

Factors that could lead to an upgrade

» The utility's rating could be upgraded if the utility is able to sustain liquidity averaging well over 250 days cash on hand in addition to maintain DSCR averaging well above 2.5x on average.

Factors that could lead to a downgrade

» The utility's rating could be downgraded if its DSCR drops below 1.75x or liquidity drops below 150 days cash on hand on a sustained basis, the utility is no longer managed conservatively from an energy procurement or leverage standpoint or if the economic service area significantly weakens on a sustained basis.

Key indicators

Exhibit 1
SnoPud's key metrics and figures

	2019	2020	2021	2022	2023
Total Sales (mWh)	7,932,734	8,513,035	8,106,649	8,608,527	8,273,268
Debt Outstanding ($000)	398,705	380,380	443,090	487,510	470,170
Debt Ratio (%)	19.4	18.6	20.4	21.6	23.1
Adjusted Debt Ratio (%)	42.7	46.9	42.1	34.6	33.8
Adjusted Days Liquidity on Hand (incl. Bank Lines)(days)	223	212	195	197	199
Fixed Obligation Charge Coverage (x)	1.81	2.63	2.93	3.46	4.30

Source: Moody's Ratings, SnoPud's audited financials

Profile

SnoPud operates a utility system that primarily generates and delivers electricity to all retail customers in Snohomish County and Camano Island, which are located in the western part of Washington State. The district also operates a Water System (separately financed) that has over 20,000 customers. Snohomish County comprises 2,100 square miles and has a population of over 800,000.

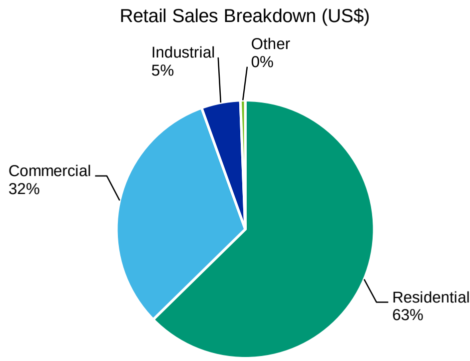
Detailed credit considerations

Revenue Generating Base

Economically Strong Service Area

The district derives more than 80% of its revenue from the sale of electricity to retail customers in Snohomish (County of) WA (Aa1 stable), which has more than 800,000 residents and a strong and diverse economy. Snohomish County benefits from its location bordering King County, WA (Aaa stable), the economic heart of the region. Socioeconomic indicators for Snohomish county are strong with median family income at 131% of the US average. The utility benefits from a customer base that is largely residential with residential retail sales comprising of 63% of total retail revenue in 2023 (see exhibit 2).

Exhibit 2
2023 Retail Customer Sales Breakdown (US$)



Source: SnoPud's audited financial statements

Long history of conservative financial management

The district has a long history of conservative financial management, has shown a willingness to raise rates when necessary, and maintains financial policies to ensure minimum financial performance. SnoPud has a policy to review its rates whenever BPA power or transmission prices are revised and in recent years, the district has implemented low and steady increases as needed. The most recent general rate increase was 5.8% effective April 1, 2024 and proposed rates scheduled for 3.5% in 2025 and 2% annually from 2026 through 2028.

To ensure minimum financial performance, the district has financial targets including a minimum DSCR of 1.75 times at the Electric System, no more than 40% debt financing of capital improvements and a minimum of 120 days of non-power operating cash reserve. SnoPud has historically exceeded these minimum thresholds which further reflects the conservative management. The district is in the process of revising its reserve policies which will be completed in the fall of 2024.

The district's governing body is comprised of a three-member board of commissioners who are elected for staggered six-year terms. Day to day management is conducted by SnoPud's management team. SnoPud's rates are set by the district's commission and are not regulated by the state regulatory board. Average system retail rates are moderately above the state average, albeit around 9% below the regional investor-owned utility.

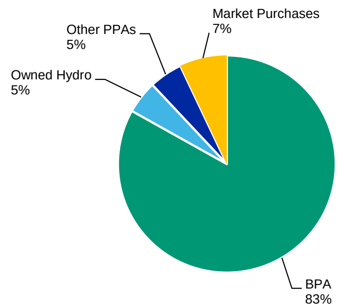
Financial Operations and Position

Long Term Contract with BPA anchors clean power supply

The district's cost structure is anchored by its long-term contract with BPA that typically provides well over 80% of SnoPud's energy requirements and represents a low cost and clean source of power (see exhibit 3).

Exhibit 3

Snohomish PUD's 2023 Power Supply Mix



Source: SnoPud's audited financial statements

The BPA contract started in October 2011 and expires in September 2028. While the BPA contract overall is considered positive for the district, SnoPud is currently exposed to hydrology risk since the contract provides for roughly half of the power as firm (Block) with the rest as a share of the federal hydro system output (Slice). The Slice portion is subject to regional water flows and thus SnoPud is exposed to some wholesale price and hydrology risk. However, the district's exposure to wholesale revenue has been manageable and typically represents less than 10% of total revenue. For the water year 2023 and 2024, hydrology conditions have been poor in the Pacific Northwest with the latest full year estimate at 83% (as measured at Dalles Dam) of average according to the US Northwest River Forecast Center.

Moving forward the district is in the process of switching to BPA's alternative Load Following mode of power contract as an alternative to Block/Slice. The switch, currently forecast to be implemented in late 2025, was recently approved by SnoPud's board and still requires BPA approval. If implemented, the change is designed to limit market exposure and the uncertainty of power costs, particularly in low water years.

The district's owned generation primarily consists of the 112 MW Jackson hydro project (Jackson Project). The Jackson Project is located on the Sultan River near the City of Everett and has a FERC license through September 2056. The district also has several smaller hydro power plants.

SnoPud also sources power under long term power purchase agreements with renewable energy sources and renewable energy credits that allows SnoPud to more than meet Washington State's renewable portfolio standards (RPS). Additionally, the district's power supply mix positions the district well against the state's goal of achieving 100% carbon free energy by January 2045.

Strong historical DSCR

For 2023, Moody's consolidated DSCR for SnoPud improved to 4.30x compared to an average of almost 2.0x from 2017 to 2019, The improvement was mostly due to the more than 40% decline in scheduled annual debt service that began in 2020 and to a lesser extent due to higher electricity demand from a recovering local economy. The most significant drivers of DSCR volatility have been weather driven demand fluctuations, hydrology and wholesale revenue. Looking forward, we expect the district to maintain DSCR at or above 3.0x.

The district's reported DSCR for the Electric System was 3.6x (per bond resolution) in 2023 and remains above the covenant level of 1.25x and their target of 1.75x.

Liquidity

One of SnoPud's credit strengths is its typical ample liquidity position demonstrated by the district's 199 days cash on hand at year-end 2023, in line with prior 3-year average of 201 days cash on hand. On a look forward basis, liquidity is forecasted to moderately increase to a range of 220 to 240 days cash on hand.

Debt and Other Liabilities

Legal security

The electric system's bonds have a pledge of net electric system revenues and require that the district set rates to maintain a 1.25x DSCR including draws and deposits from the rate stabilization fund. The Electric System bonds have a cash funded, debt service reserve sized to the lesser of 10% of bond proceeds or the maximum annual interest, which is considered weak relatively to the traditional 3-prong test applicable to the generation system.

The generation system bondholders benefit from a pledge of net revenues of the generation system and the electric system is obligated to pay all of the generation system's costs irrespective of generation levels. The generation system bonds have a cash funded, debt service reserve account sized to the lesser of 10% of bonds outstanding, maximum annual debt service or 125% of average annual debt service.

Debt structure

The district's debt consists of traditional long-term, fixed rate bonds that amortize over time.

Debt-related derivatives

The utility does not have any debt related derivatives.

Pensions and OPEB

The district participates in Washington State's statewide, multiple employer Public Employees Retirement System (PERS) pension plan. Moody's calculates the district's adjusted net pension liability (ANPL) for fiscal 2023 relating to its proportionate share of PERS to be around $207 million, compared to the utility's reported proportionate share of the net pension asset of around $25 million. Moody's adjusts the reported pension liabilities of entities that report under governmental accounting standards, to enhance comparability across rated issuers. Under governmental pension accounting, liabilities are discounted using an assumed rate of investment return on plan assets. Under our adjustments, we value liabilities using a market based discount rate for high quality taxable bonds, a proxy for the risk of pension benefits.

The utility also provides other post employment benefits (OPEB) to its employees and its reported net OPEB liability totaled around $41.4 million at year end 2023.

ESG considerations

Snohomish County P.U.D. 1, WA Electric Ent.'s ESG credit impact score is CIS-2

Exhibit 4

ESG credit impact score

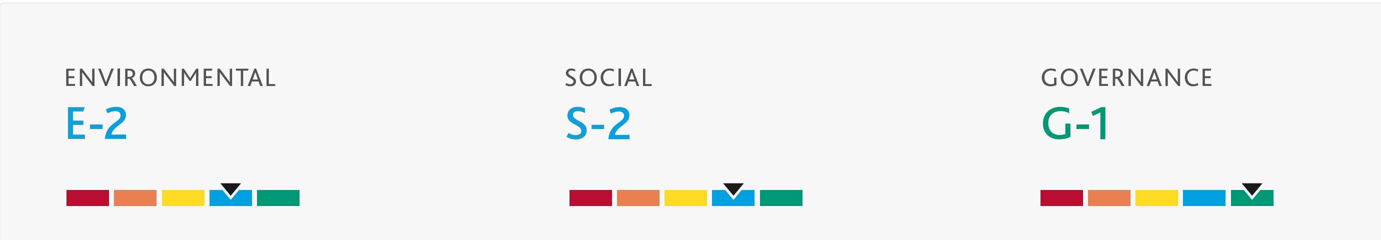
CIS-2

ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

Snohomish County Public Utility District 1, WA Electric Enterprise's (SnoPUD) ESG Credit Impact Score is neutral-to-low (**CIS-2**). Its ESG attributes are considered to have a neutral-to-low impact on the current rating. SnoPUD's **CIS-2** reflects neutral to low environmental risks, neutral to low environmental social risks and positive exposure to governance risks.

Exhibit 5
ESG issuer profile scores



Source: Moody's Ratings

Environmental

E-2. SnoPUD has limited exposure to environmental risk. The district has negative exposure to physical climate risks since volatile weather patterns which can result in fluctuating water conditions, which threatens power output at hydroelectric facilities. This is offset by positive carbon transition exposure since the PUD has most of its power supplies coming from carbon emissions free resources.

Social

S-2. SnoPud has limited exposure to social risks given the carbon-free nature of its hydroelectric facilities and very low cost power.

Governance

G-1. The influence of governance risk (**G-1**) is positive which reflects a positive financial strategy and risk management given SnoPUD's long history of low leverage, robust liquidity, and strong debt service coverage.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

Moody's evaluates SnoPud's rating under the US Public Power Electric Utilities with Generation Ownership Exposure methodology, and, as depicted below, the grid indicated outcome is Aa2 which is the same as its Aa2 assigned rating.

Exhibit 6
SnoPud's Scorecard

Factor	Subfactor	Score	Metric
1. Cost Recovery Framework Within Service Territory		Aaa	
2. Wllingness and Ability to Recover Costs with Sound Financial Metrics		Aa	
3. Generation and Power Procurement Risk Exposure		A	
4. Competitiveness	Rate Competitiveness	A	
5. Financial Strength and Liquidity	a) Adjusted days liquidity on hand (3-year avg) (days)	Aa	197
	b) Debt ratio (3-year avg) (%)	Aa	36.8%
	c) Adjusted Debt Service Coverage or Fixed Obligation Charge Coverage (3-year avg) (x)	Aa	3.57x
Preliminary Grid Indicated outcome from Grid factors 1-5		**Aa2**	
		Notch	
6. Operational Considerations		0.0	
7. Debt Structure and Reserves		0.0	
8. Revenue Stability and Diversity		0.0	
Grid Indicated Outcome:		**Aa2**	

Source: Moody's Ratings

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