

## CHELAN COUNTY PUD

### Condensed Rating Agency Report Information

Bond Ratings	Moody's Investors Service (Moody's)	Standard & Poor's Rating Services (S&P)	Fitch Ratings (Fitch)
Rating	Aa3/Outlook Stable (from May 2018)	AA+/Outlook Stable (from June 2019)	AA+/Outlook Stable (from Sept 2017)
Key strengths	<ol style="list-style-type: none"> <li>1. High Liquidity</li> <li>2. Strong risk management including hedging</li> <li>3. Substantial debt reduction since 2009</li> <li>4. Highly competitive hydro generation</li> <li>5. Debt service coverage ratio above 2.0x</li> <li>6. Low retail rates</li> </ol>	<ol style="list-style-type: none"> <li>1. Extremely strong, low cost assets</li> <li>2. Very strong environmental compliance</li> <li>3. Extremely strong management, policies, and planning</li> <li>4. Very strong rate-setting practices</li> <li>5. Extremely strong market position (rates among lowest in the nation)</li> <li>6. Extremely strong coverage, liquidity, and debt profile</li> </ol>	<ol style="list-style-type: none"> <li>1. Valuable hydro generation resources that provide low-cost power, even though declines in wholesale market prices have eroded advantages relative to market</li> <li>2. Risk management of cost-based and market-based wholesale sales</li> <li>3. Rapid debt reduction</li> <li>4. Strong financial performance, favorable compared to rating medians</li> </ol>
Challenges	<ol style="list-style-type: none"> <li>1. Long-term hydrology and wholesale price exposure and weaker wholesale market</li> <li>2. Offtake concentration and credit deterioration of major long term customer</li> <li>3. Likely declining net revenues over 5 years</li> <li>4. Mixed history of willingness to raise rates</li> <li>5. Operational issues at hydro dams</li> </ol>	<ol style="list-style-type: none"> <li>1. Strong service area economic fundamentals, but lacks breadth and depth of more urban systems</li> <li>2. Concentrated asset exposure to stream flow variability although significantly offset by quality, low cost assets and revenue volatility effectively minimized through power sales hedging strategy</li> </ol>	<ol style="list-style-type: none"> <li>1. Reduced demand for wholesale products for any, including from persistently low market prices, could result in negative rating action in the future</li> </ol>
Other actions and comments	<ol style="list-style-type: none"> <li>1. Positive Ratings Drivers: maintain high liquidity, debt service cover consistently above 3x, additional long-term contracts with creditworthy counterparties that mitigate hydrology and market price risk</li> <li>2. Negative Ratings Drivers: significant reduction of liquidity, debt service coverage below 1.5x on a sustained basis, weakened risk management, major operational problems, significant decline in counterparty credit quality or termination of major long-term contracts</li> </ol>	<ol style="list-style-type: none"> <li>1. All ratings affirmed with Stable outlooks: Consolidated System Bonds AA+, 2009A Rocky Reach and senior 1997A Rock Island Bonds AA, and subordinate 2009A Rock Island lien AA-</li> <li>2. The outlook also reflects the expectation that management will continue to enact budget or hedging measures to counter any revenue shortfalls to achieve its financial targets</li> </ol>	<ol style="list-style-type: none"> <li>1. Bonds affirmed at AA+/Stable</li> <li>2. "The district's generation assets are a credit strength. Even with some operational challenges that have been experienced over the past few years, the district's average hydropower production cost remains competitive with market prices."</li> </ol>

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### Summary of Bond Ratings for Washington State Municipal Power Utilities As of: June 2019

Washington Municipal Power Utility Ratings			
	Moody's	S&P	Fitch
<b>Chelan</b>	<b>Aa3 (stable)</b>	<b>AA+ (stable)<sup>1</sup></b>	<b>AA+ (stable)</b>
Benton	Aa3 (no outlook)	A+ (stable)	AA- (stable)
Clallam	Aa3 (no outlook)	NR	NR
Clark	A1 (positive)	A+ (stable)	AA- (stable)
Cowlitz	A1 (no outlook)	NR	A (stable)
Douglas	Aa3 (stable)	AA (stable)	NR
Franklin	A1 (no outlook)	A (stable)	NR
Grant	Aa3 (stable)	AA (stable)	AA (stable)
Grays Harbor	A1 (no outlook)	A (stable)	A (negative)
Kittitas	A1 (no outlook)	A (stable)	NR
Klickitat	A3 (no outlook)	NR	A- (stable)
Lewis	NR <sup>2</sup>	NR <sup>2</sup>	NR <sup>2</sup>
Mason	Aa3 (no outlook)	A+ (stable)	NR
Okanogan	A1 (no outlook)	A (stable)	NR
Pacific	A2 (stable)	NR	NR
Pend Oreille	Baa2 (stable)	NR	A- (stable)
Seattle City Light	Aa2 (stable)	AA (stable)	NR
Snohomish	Aa3 (stable)	AA- (stable)	AA- (stable)
Tacoma Power	Aa3 (stable)	AA (stable)	AA- (stable)
Whatcom	Aa3 (LTGO)(no outlook)	A+ (LTGO)(stable)	NR

1. Senior lien 2009A Rocky Reach and 1997A Rock Island bonds are rated AA, subordinate lien 2009A Rock Island rated AA- due to S&P methodology change effective May 2016. Other municipals that may be subject to same treatment by S&P are not identified in this chart.
2. Moody's, S&P and Fitch do not rate Lewis PUD but do rate its Bonneville pass-through debt.

Selection of other utilities rated the same (AA+) as Chelan, or higher, by S&P and/or Fitch:

#### Retail

- Chattanooga Electric Power Board – NR/AA/AA+
- Knoxville Utilities Board – Aa2/AA+/NR
- Los Angeles Dept of Water and Power – Aa2/AA+/AA (S&P AA+ water system only)
- Nashville Electric Service – NR/AA/AA+
- San Antonio City Public Service – Aa1/AA/AA+
- Springfield MO Board of Public Utilities – NR/AA+/AA

#### Wholesale

- Tennessee Valley Authority – Aaa/AA+/AAA (Stable)