

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 May 2018)	AA+/Outlook Stable (from Sept 2017)
Key strengths	<ol style="list-style-type: none"> 1. High Liquidity 2. Strong risk management including hedging 3. Substantial debt reduction since 2009 4. Highly competitive hydro generation 5. Debt service coverage ratio above 2.0x 6. Low retail rates 	<ol style="list-style-type: none"> 1. Extremely strong financial flexibility and low rates 2. Very low operating costs arising from strong hydro generating assets 3. Very strong fixed charge coverage over 2x 4. Extremely strong unrestricted cash position 5. Strong financial policies and risk management techniques 6. Rapidly declining leverage 	<ol style="list-style-type: none"> 1. Valuable hydro generation resources that provide low-cost power, even though declines in wholesale market prices have eroded advantages relative to market 2. Risk management of cost-based and market-based wholesale sales 3. Rapid debt reduction 4. Strong financial performance, favorable compared to rating medians
Challenges	<ol style="list-style-type: none"> 1. Long-term hydrology and wholesale price exposure and weaker wholesale market 2. Offtake concentration and credit deterioration of major long term customer 3. Likely declining net revenues over 5 years 4. Mixed history of willingness to raise rates 5. Operational issues at hydro dams 	<ol style="list-style-type: none"> 1. Economic base that lacks breadth and depth 2. Some exposure to variable hydrology which can affect net wholesale revenues, although significantly reduced in recent years 	<ol style="list-style-type: none"> 1. Reduced demand for wholesale products for any, including from persistently low market prices, could result in negative rating action in the future
Other actions and comments	<ol style="list-style-type: none"> 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 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 	<ol style="list-style-type: none"> 1. Consolidated System Bonds upgraded to AA+/Stable, 2009A Rocky Reach and senior 1997A Rock Island Bonds affirmed at AA and subordinate 2009A Rock Island lien affirmed at AA- 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 	<ol style="list-style-type: none"> 1. Bonds affirmed at AA+/Stable 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."

CHELAN COUNTY PUD

Summary of Bond Ratings for Washington State Municipal Power Utilities As of: May 2018

Washington Municipal Power Utility Ratings			
	Moody's	S&P	Fitch
Chelan	Aa3 (stable)	AA+ (stable)¹	AA+ (stable)
Benton	Aa3 (no outlook)	A+ (stable)	A+ (stable)
Clallam	Aa3 (no outlook)	A+ (stable)	NR
Clark	A1 (stable)	A (stable)	A+ (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 (stable)
Kitsap	NR	NR	NR
Kittitas	A1 (no outlook)	A (stable)	NR
Klickitat	A3 (no outlook)	NR	A- (stable)
Lewis	Aa3 (no outlook)	NR ²	NR ²
Mason	Aa3 (no outlook)	A+ (stable)	NR
Okanogan	A1 (no outlook)	A (stable)	NR
Pacific	A2 (no outlook)	NR	NR
Pend Oreille	Baa2 (negative)	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	A1 (LTGO)(no outlook)	A+ (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. 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 Fitch and/or S&P:

Retail

- Chattanooga Electric Power Board – NR/AA+/AA+
- Knoxville Utilities Board – Aa2/AA+/NR
- Los Angeles Dept of Water and Power – Aa2/AA+/AA
- 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)

CHELAN COUNTY PUD



Chelan's Rating History

	Moody's	Fitch	S&P
1974	Aa		
1976			A
1978			A+
1983	A1		
1987	A		
1989	A1		A-
1991			A
1992		A+	
1993			A+
1997	Aa3	AA-	AA
1998		AA-	
1999	Aa2		
2002	Aa2	AA	AA
2005	Aa2	AA	AA
2007	Aa2	AA	AA
2008	Aa2	AA+	AA
2009	Aa2 ⁽¹⁾	AA+	AA
2011	Aa2 ⁽¹⁾	AA+	AA
2013	Aa3 ⁽¹⁾	AA+	AA
2014	Aa3 ⁽¹⁾	AA+	AA
2015	Aa3	AA+	AA
2016	Aa3	AA+	AA ⁽²⁾
2017	Aa3	AA+	AA ⁽²⁾
Current Yr:	Aa3	AA+	AA+ ⁽²⁾⁽³⁾

1. The Notes (Third) lien was rated one notch below senior lien by Moody's. Those Notes were paid in 2014 and that rating discontinued.
2. Starting in 2016, 2009A Rock Island subordinate bonds are rated one notch below senior lien at AA- by S&P due to their methodology change.
3. The Consolidated System bonds are rated AA+ by S&P and the Rocky Reach and senior lien Rock Island bonds are rated AA.