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 County P.U.D. 1, WA Electric Enterprise (Aa2 stable) benefits from a strong and diverse service area, conservative management, and historic willingness to raise rates when necessary. Sound fiscal management has supported debt service coverage ratios (DSCR) above 2.0x for the last several years and liquidity has hovered around a healthy 200 days cash on hand (DCOH), although DCOH declined in 2024 to 158 days. SnoPud's adjusted debt ratio in fiscal 2024 of 28% was low and has been on a steady decline for the last several years as the utility has deleveraged.

Supporting the district's credit quality is its long-term power supply agreement with Bonneville Power Administration (BPA, Aa2 stable) for most of the utility's energy requirements and the expectation that SnoPud will seamlessly transition operationally and financially to a BPA Load Following contract from its current Block and Slice arrangement. The switch to a new BPA agreement is expected to incrementally reduce exposure to wholesale power markets and improve cost predictability starting in late 2025.

Credit strengths

- Strong service area economy
- Healthy coverage and liquidity metrics
- Power supplied mostly by BPA under a long-term agreement
- Demonstrated willingness to raise rates when necessary
- Low carbon transition risk exposure

Credit challenges

» Modestly above average retail rates

» Electric system's debt service reserve (DSR) sized only to maximum interest; no DSR for generation system bonds

Rating outlook

The stable outlook reflects our expectation of continued strong financial performance including consolidated DSCR averaging around 4.0x times and strong liquidity between 150-200 DCOH.

Factors that could lead to an upgrade

» Increases in liquidity above 250 DCOH while maintaining DSCR above 2.5x

Factors that could lead to a downgrade

» Sustained declines in DSCR to below 1.75x or liquidity to below 150 days DCOH

» Pronounced declines in the service area's economy

Key indicators

Exhibit 1

SnoPud's key metrics and figures

	2020	2021	2022	2023	2024
Total Sales (mWh)	8,513,035	8,106,649	8,608,527	8,273,268	8,842,862
Debt Outstanding ($000)	380,380	443,090	487,510	470,170	451,745
Debt Ratio (%)	18.6	20.4	21.6	23.1	20.5
Adjusted Debt Ratio (%)	46.9	42.1	34.6	33.8	28.1
Adjusted Days Liquidity on Hand (incl. Bank Lines)(days)	212	195	197	199	159
Fixed Obligation Charge Coverage (x)	2.63	2.93	3.46	4.30	2.44

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 23,000 customers. Snohomish County comprises 2,100 square miles and has a population of over 880,000. In 2024, the district has more than 381,000 electric customers, approximately 91% of which were residential. The district's governing body is comprised of a three-member board of commissioners who are elected for staggered six-year terms. SnoPud's rates are set by the district's commission and are not regulated by the state regulatory board.

Detailed credit considerations

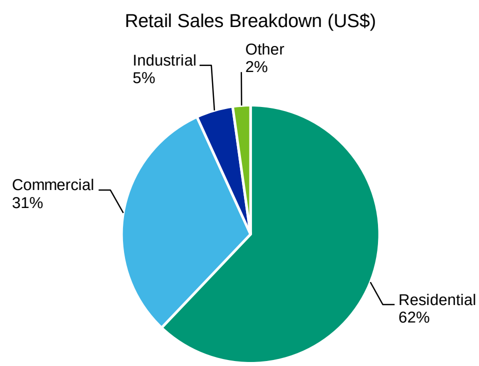
Revenue Generating Base

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 80,000 residents and a strong and diverse economy. Snohomish County benefits from its location bordering King County, WA (Aaa stable), the economic center of the region. Socioeconomic indicators for Snohomish County are strong with median family income at 132% of the US average. The utility benefits from a diverse customer base that is largely residential with residential retail sales comprising of 62% of total retail revenue in 2024 (Exhibit 2).

Exhibit 2

2024 Retail Customer Sales Breakdown (US$)



Source: SnoPud's audited financial statements

Long history of conservative financial management expected to continue

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. In recent years, the district has implemented low and steady rate increases as needed. The most recent general rate increase was 4.6% effective April 2025. Management has also proposed rate increases for 3% in 2026 and 2% in 2027 that are pending board approval.

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.

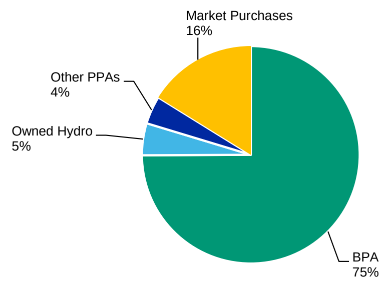
Financial Operations and Position

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 75% of SnoPud's energy requirements and represents a low cost and clean source of power (Exhibit 3).

Exhibit 3

Snohomish PUD's 2024 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, which exposes SnoPud to some wholesale price and hydrology risk. For the water year 2023 and 2024, hydrology conditions have been poor in the Pacific Northwest with the latest full year estimate at 79% (as measured at Dalles Dam) of average according to the US Northwest River Forecast Center. However, the district's exposure to wholesale revenue typically represents less than 10% of total revenue, which minimizes the wholesale price and hydrology risks.

The district is in the process of switching to BPA's Load Following mode of power contract as an alternative to Block/Slice. The change, which will take effect in October 2025, 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). 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 expected to continue moving forward

Although Moody's consolidated DSCR for SnoPud declined to 2.4x in fiscal 2024, from 4.30x in fiscal 2023, it was still strong compared to an average of almost 2.0x. The decline was mostly due to the increase in purchased power cost and operations and maintenance costs, which drove down the net operating revenue. Looking forward, we expect the district to maintain DSCR at or above 4.5x, because we expect purchased power expenses to stabilize as SnoPud moves to Load Following. The district's reported DSCR for the electric system was 3.2x (per bond resolution) in fiscal 2024 and remains above the covenant level of 1.25x and SnoPud's target of 1.75x.

To ensure minimum financial performance, the district has financial targets including a minimum DSCR of 1.75 times for 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 adopted new reserve policies with a minimum liquidity threshold of 180 DCOH beginning 2027.

Liquidity
SnoPud's ample liquidity position is a credit strength and demonstrated by the district's 158 DCOH at fiscal year end 2024, slightly below the prior 3-year average of 185 days cash on hand. Liquidity is forecasted to moderately increase to a range of 150 to 200 DCOH in fiscal 2025, and we expect similar liquidity levels going forward.

Debt and Other Liabilities

Legal security
The electric system's bonds are backed by a pledge of net electric system revenue. The rate covenant is 1.25x. The rate covenant calculation includes draws and deposits from the rate stabilization fund as revenue. Select electric system bonds have a cash funded, DSR sized to the lesser of 10% of bond proceeds or the maximum annual interest, which is a modest weakness largely offset by the utility's healthy liquidity.

The generation system bonds are backed by a pledge of net revenues of the generation system. The electric system is obligated to pay all of the generation system's costs irrespective of generation levels. The generation bonds do not have a DSR.

Debt structure
The district's debt consists of traditional long-term, fixed rate bonds that amortize over time. The district's Series 2025 bonds will finance improvement projects including the building of a community office, grid reliability enhancements, and new Connect-Up meter installations in addition to refunding outstanding Series 2010 and Series 2015 bonds.

Debt-related derivatives
The utility does not have any debt related derivatives.

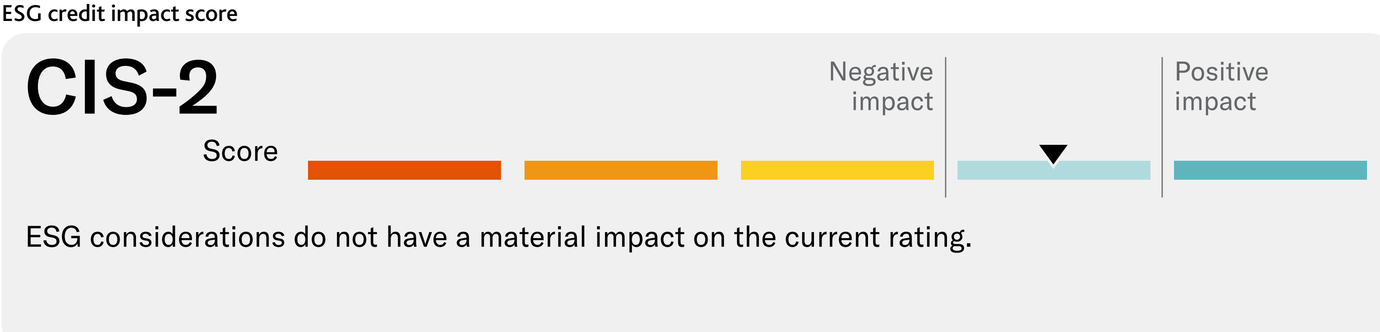
Pensions and OPEB
The district participates in Washington State's statewide, multiple employer Public Employees Retirement System (PERS) pension plan. Moody's calculates the district's adjusted net pension liability (ANPL) for fiscal 2024 relating to its proportionate share of PERS to be around $162 million, compared to the utility's reported proportionate share of the net pension asset of around $20 million. ANPL accounts for roughly 20% of the district's entire outstanding adjusted debt. Moody's adjust debt ratio is a low 20.5%. 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 $40 million at fiscal year end 2024.

ESG considerations

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

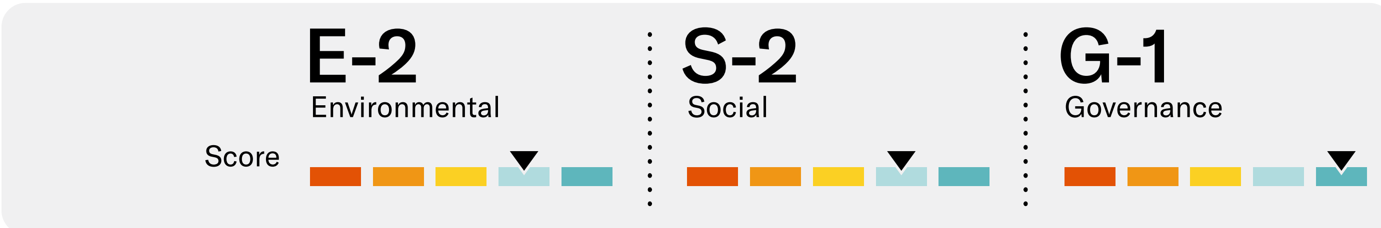
Exhibit 4
ESG credit impact score



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	185
	b) Debt ratio (3-year avg) (%)	Aaa	32.2%
	c) Adjusted Debt Service Coverage or Fixed Obligation Charge Coverage (3-year avg) (x)	Aaa	3.4x
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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