Research Update:

Snohomish County Public Utility District No. 1, WA Series 2025A, 2025B Electric And Generation System Bonds Rated 'AA'

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Primary contact

Alexandra Rozgonyi
Englewood
1-303-721-4824
alexandra.rozgonyi
@spglobal.com

Additional contact

Valentina Protasenko
Chicago
1-3122337085
valentina.protasenko
@spglobal.com

Overview

- S&P Global Ratings assigned its 'AA' long-term rating to Snohomish County Public Utility District No. 1 (SnoPUD or the district), Wash.'s electric system and generation system series 2025A and 2025B revenue and refunding bonds.
- At the same time, we affirmed our 'AA' long-term rating on the district's existing electric and generation system debt.
- The outlook is stable.

Rationale

Security

The series 2025A and 2025B electric system bonds are secured by net revenues of the district's electric system. The series 2025A and 2025B generation system bonds are secured by net revenues of the district's generation system. Bond proceeds will be used for capital improvements of the electric system and to refund electric system debt outstanding. The generation system bond proceeds will be used to refund certain existing generation system bonds.

Debt service on the district's generating system obligations is paid as an operating expense of the electric system, and we make no rating distinction between the two systems, and in calculating coverage metrics, we treat these obligations as electric system debt. As of Dec. 31, 2024, SnoPUD had a $420 million of electric system debt and $53 million of generation system debt outstanding.

Credit highlights

The rating reflects our view of the district's robust and diverse service area economy, competitive electric rates from low-cost hydro-generation from Bonneville Power Authority (BPA), and robust financial management practices and policies. Rate-setting and financial management practices have supported the maintenance of robust fixed charge coverage (FCC) and reserves. We expect financial performance will remain a credit strength largely due to the district switching from BPA's block and slice product to a load following product effective Oct. 1, 2025, through the end of its long-term agreement in 2028. This change will reduce price volatility and market exposure compared with the previous block-and-slice product. Management, however, is still in the process of renewing its long-term agreement with BPA and there could be long-term cost pressure associated with the authority's hydro volatility, capital needs, and environmental regulations.

The ratings further reflect our view of the electric system's:

- Consistently robust liquidity (150 days of operating expenses in 2024) and coverage of fixed costs (averaging more than 1.8x during the past three years) through varying hydrological conditions;
- Robust service area economic fundamentals, with a largely residential retail revenue base and good customer diversity, further supported by the area's above-average median household effective buying income (MHHEBI), which we believe provides a high degree of stability;
- Change to load-following contract with BPA, power supply that is virtually all non-carbon emitting, prudent rate-setting practices, and sound management, policies, and planning; and
- Moderate ratemaking flexibility, as evidenced by rates that are slightly below the state average coupled with above average MHHEBI.

Somewhat offsetting these credit strengths include:

- Exposure to hydrology risk, and environmental regulations, which could result in higher costs being passed down to the district from BPA;
- New integrated resources plan expected to be completed later in 2025 that indicates the need for additional power resources after 2029 for which management is still determining the source and potential cost of these additional needs; and
- A sizable capital program primarily for the electric system at about $1 billion through fiscal 2029 and about $33 million for the generation system, although we believe the debt burden is manageable given the capital plan is going to be largely funded from reserves and rate revenue.

Environmental, social, and governance

We view environmental risk factors as slightly negative given the district sources most of its supply from BPA whose power supply is largely hydroelectric generation. In our view, the meteorological effects of climate change and subsequent drought could affect the generation capability of BPA to meet the loads of its off-takers, including the district. BPA's generating capacity is reliant on precipitation and snowpack and, in our view, climate change could affect the amount, timing, and availability of hydroelectric generation, which could result in increased costs to the electric utility. Furthermore, one potential long-term risk is BPA's exposure to fish and wildlife regulations and potential seismic improvements, the costs of which are undetermined. In addition, the district is subject to an evolving regulatory environment in the State of Washington, including the Energy Independence Act and the Clean Energy Transformation Act. The district complies with all regulations but could face additional regulations in the future. SnoPUD is further exposed to severe weather events including windstorms and heavy rain. In November 2024, there was a powerful bomb cyclone that resulted in 166,000 customers being without power and $15 million of damage. In our opinion, the cost of the damage was manageable relative to the size of liquidity in fiscal 2024. We understand management annually budgets for potential damage from weather events each year based on the most recent years of damage and is currently estimated at around $13 million. The district is further exposed to wildfires in the region, but we believe the combination of wildfire insurance included in its policy, robust liquidity, and wildfire-mitigation efforts such as vegetation management, deenergization and blocking reclosures somewhat eliminate this exposure.

In our view, the district's social risks are credit neutral given strong incomes and low-cost power with a weighted-average system rate of 9.96 cents per kilowatt hour (kWh). We are monitoring the strength and stability of electric utilities' revenue streams, given inflationary pressures on electricity prices (which have outpaced the broader Consumer Price Index inflation rate), reflecting higher operating and debt costs due to investments in emissions reductions, load growth, and climate resilience. We anticipate that substantial and sweeping tariffs could also pressure electricity prices as utilities source costlier materials and components critical to the sector's build cycle. Unpredictability around federal policy as well as the economy's stressors and the associated financial pressures consumers are facing--including diminished consumer confidence and expectations of rising inflation and unemployment-- rate-setting bodies could have difficulty harmonizing the interests of utilities, their customers, and their investors, which could negatively affect utilities' financial metrics. (See "U.S. Economic Outlook Update: Higher Tariffs And Policy Uncertainty To Weaken Growth, May 1, 2025," May 1, 2025, on RatingsDirect.)

We view the district's governance risk factors as credit supportive, as they include full rate-setting autonomy, liquidity targets, a long-term capital plan, and long-term financial forecasting.

Outlook

The stable outlook reflects our analysis of management-provided projections, which suggest that with the new load-following contract there will be some costs savings in combination with planned rate increases, which should result in robust FCC above 1.6x, with liquidity in line with recent trends.

Downside scenario

We could lower the rating if sustained adverse hydrological conditions result in significantly higher costs from BPA, if the district draws down reserves significantly more than planned, or the renewal of the BPA contract in 2028 results in unfavorable contract terms or costs resulting in weaker financial performance.

Upside scenario

We could raise the rating if over the next two years there is a sustained track record of materially improved liquidity and the utility exceeds its projected coverage metrics. Furthermore, we believe the ongoing update to the Integrated Resources Plan and renegotiation of BPA contract add uncertainty to future operations and financial metrics.

Credit Opinion

With more than 380,000 metered customers serving a population of about 880,000, SnoPUD is the second-largest municipal utility in the State of Washington. We believe the district's size and predominantly residential revenue base (about 56% of revenue), provide economies of scale and operational and financial flexibility. In addition, no single customer accounted for more than 3% of fiscal 2024 revenues, which provides additional stability.

The district’s electric rates are competitive based on the weighted-average revenue per kWh as a percent of the state average, which was 96% based on 2023 (the most recently available information from the Energy Information Administration [EIA]). The most recent rate increase was in April 2025 by 4.6% in part due to higher power supply costs associated with the severe weather event in 2024. The most recent district rate increase to pass-through BPA cost increases was in November 2023 by 1.4%. In 2022, the district added a residential base rate in addition to the volumetric component. Management reviews rates annually and passes through any BPA cost increases on a discretionary basis. SnoPUD anticipates a potential 3% rate increase in 2026 and 2% in 2027.

The commission approved the switch from the block-and-slice product with BPA to load following, which will be effective as of Oct. 1, 2025. In addition, the district is in negotiations with BPA to extend its contract past 2028 and indicated the contract should be finalized by the end of 2025. In 2024, approximately 75% of the district’s long-term energy resources came from Bonneville, 5% from the Generation System, 4% from long-term renewable energy contracts, and 16% from short-term market purchases. After the change to the load-following product, the district expects that Bonneville will supply approximately 95% of the district’s power requirements, supplemented by local generation.

Financial performance has been a credit strength and is expected to remain robust in future years given recent and planned rate increases, in addition to costs savings resulting from the switch to a load-following contract. Based on our analysis of the management-provided forecast, FCC is projected to rise to around 2.1x in fiscal 2029 from 1.6x in fiscal 2025, despite an increase in annual debt service obligations. The rise in coverage is due to the cost savings from the load-following contract, expectation to not renew the wind-purchased power agreements, and less exposure to volatile wholesale sales. Projected expenses include BPA estimates provided to the district with regards to the cost of the new load-following product. Projected revenues include a planned rate increase of 3% in 2026 and 2% in 2027. However, if the power supply costs deviate from management projections due to either higher costs associated with the renegotiated contract, hydrologic conditions, or capital plans, we could see FCC drop below projections.

Liquidity is robust, in our view, at $324 million, equivalent to around 150 days of operating expenses in 2024, which is expected to remain above 150 days through fiscal 2029 as the district funds 60% of the capital plan from reserves and rate revenue. In addition, management increased its reserve target to 180 days from 120 days, which we believe is credit supportive. Further, in September 2024, the district reclassified its rate stabilization fund (RSF) from restricted to unrestricted within long-term investments. This change showed up in the fiscal 2024 audit but did not change our liquidity assessment given we historically viewed the RSF as available to offset rate increases, if needed.

The electric system’s capital plan is sizable during the next five years at $1.1 billion. Major projects consist of completing the automatic meter reading installation and implementing SnoSmart, an infrastructure software endeavor designed to enhance the district’s system reliability, mitigate wildfire risks, and enable demand management. The city was awarded a $30 million grant from the U.S. Department of Energy for this project. The electric system capital improvements will be funded from 63% net revenues and cash, 16% bonds, and 3% grants. The 2025A bonds include $185 million of new money. The generation system capital plan is $33.5 million and will be funded from rate revenue.

Snohomish County Public Utility District No. 1 (electric system), Washington--Key credit metrics

	--Fiscal year ended Dec. 31--		
	2024	**2023**	**2022**
Operational metrics			
Electric customer accounts	381,511	377,269	373,126
% of electric retail revenues from residential customers	56	63	61
Top 10 electric customers' revenues as % of total electric operating revenue	7	8	8
Service area median household effective buying income as % of U.S.	133	133	136
Weighted average retail electric rate as % of state	96	96	99
Financial metrics			
Gross revenues ($000s)	934,709	865,445	807,338
Total operating expenses less depreciation and amortization ($000s)	790,479	692,526	646,451
Debt service ($000s)	32,588	31,954	29,998
Debt service coverage (x)	4.4	5.4	5.4
Fixed-charge coverage (x)	1.7	1.9	1.8
Total available liquidity ($000s)*	323,560	335,174	341,537
Days' liquidity	149	117	193
Total on-balance-sheet debt ($000s)	446,617	452,786	465,383
Debt-to-capitalization (%)	21	22	24

*Total available liquidity includes available committed credit line balances, where applicable. Debt service coverage--Revenues minus expenses divided by debt service. Fixed-charge coverage--Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy).

Ratings List	
New Issue Ratings	
US$10.91 mil generation sys rev rfdg bnds ser 2025A due 12/01/2040	
Long Term Rating	AA/Stable
US$107.665 mil elec sys rev rfdg bnds (tax exempt) ser 2025B due 12/01/2040	
Long Term Rating	AA/Stable
US$283.645 mil elec sys rev and rfdg bnds (tax exempt) ser 2025A due 12/01/2055	
Long Term Rating	AA/Stable
US$36.81 mil generation sys rev rfdg bnds ser 2025B due 12/01/2045	
Long Term Rating	AA/Stable
Ratings Affirmed	
Public Power	
Snohomish Cnty Pub Util Dist #1, WA Retail Electric Generating System debt O&M Lien	AA/Stable
Snohomish Cnty Pub Util Dist #1, WA Retail Electric System	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.