



Pend Oreille County Public Utility District

Administrative Offices - P.O. Box 190 • Newport, WA 99156 • (509) 447-3137 • FAX (509) 447-5824
Box Canyon Hydro Project - P.O. Box 547 • Ione, WA 99139 • (509) 446-3137 • FAX (509) 447-6790

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Media Contact: Amber Gifford

agifford@popud.org / 509-447-9328

Pend Oreille PUD Receives Affirmation of Investment-Grade Credit Ratings

Newport, Washington – Fitch Ratings recently improved Public Utility District No. 1 of Pend Oreille County (“PUD”)’s outlook to positive and affirmed the PUD’s “investment-grade” rating of A-. The bond rating agency is one of two agencies that provides the PUD an independent credit rating and risk evaluation on a periodic basis. This credit rating helps investors determine the financial strength of the PUD, similar to that of a personal credit score - a higher rating results in lower interest rates and thus lower bond payments.

The investment grade rating and improved outlook to positive, reflects the stability provided by the PUD’s strategic transition following the closure of Ponderay Newsprint Company, including the implementation of the 2021 agreement with Shell Energy North America. The agency also acknowledged strong financial reserves, low operating costs, and a Board of Commissioners that is willing to implement rate adjustments as necessary to ensure the financial strength of the PUD.

Fitch Ratings’ August 6, 2021 press release stated:

“The Outlook Revision to Positive reflects Fitch's belief that the district is well on its way to reducing revenue volatility beginning in 2021 and stabilizing financial performance as a result of a new energy hedging agreement with Shell Energy North America, LP (Shell Energy), and progress in adjusting its flexible power supply to address the large loss of load. Fitch believes the contract with Shell Energy effectively hedges both hydro-based volume risk and merchant-based price risk that has historically exposed the district to more variable revenues, while sacrificing the historically robust margins of advantageous water years. Retail rate increases in 2020 to 2025, and reduction of excess power purchased from Bonneville are also expected to help stabilize financial performance...”

“Pend Oreille's financial profile is very strong, reflecting strong cash flows and growing cash reserves. At fiscal year-end 2020, cash on hand (DCOH) improved to 560 days. Margins tighten over the medium-term as the district works to stabilize both revenues and operating expenses, but given the lack of debt plans and healthy reserves, leverage is low for the rating. Fitch's stress scenario considers the performance of district's new hedging agreement with Shell Energy and its ability to negotiate favorable distribution-only terms with the PNC mill site that, going forward, could benefit the rating.”

Fitch’s press release also emphasized the importance of insulating the PUD from risks posed by the new owner of the former Ponderay Newsprint site, Allrise Capital, Inc.:

“Given the new owner of the mill site, the entrance of a new large customer could affect the district's credit positively or negatively, depending on the terms of the power sales agreement, which is not finalized. Arrangements that leave the district financially or operationally exposed to the potential counterparty could negatively affect the district's rating, while an arrangement that largely insulates the district from the counterparty's credit and operations would continue to diversify revenue risk.”

“This exciting announcement by Fitch further validates our strong transition strategy both leading up to and following the closure of our single largest industrial customer,” said April Owen, the PUD’s Director of Audit, Financial and Power Supply. “We remain committed to making prudent decisions to safeguard the financial strength of the PUD on behalf of our customers for generations to come.”

About Pend Oreille County Public Utility District

Pend Oreille PUD was established in 1936 and began operations in 1948. The PUD is governed by three locally elected Commissioners. A General Manager and staff operate the utility within policies set by the Board of Commissioners. The PUD has four operating systems: The electric system distributes electricity to the county, the production system produces power from the Box Canyon Hydroelectric Project, the water system consists of nine individual water distribution subdivisions, and the community network system provides wholesale broadband communication services. For more information visit: <http://popud.org>.

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