

**New Issue: MOODY'S ASSIGNS Aa3 RATING TO MASON COUNTY PUD NO. 3 WA ELECTRIC REVENUE BONDS**

Global Credit Research - 19 Jul 2010

**APPROXIMATELY \$86.1 MILLION IN DEBT AFFECTED**

Electric Utilities  
WA

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
Electric Revenue and Refunding Bonds, Series 2010A	Aa3
<b>Sale Amount</b>	\$7,300,000
<b>Expected Sale Date</b>	07/21/10
<b>Rating Description</b>	Electric Revenue
Electric Revenue Bonds, Series 2010B (Taxable Build America Bonds '97 Direct Payment)	Aa3
<b>Sale Amount</b>	\$55,700,000
<b>Expected Sale Date</b>	07/21/10
<b>Rating Description</b>	Electric Revenue

**Opinion**

NEW YORK, Jul 19, 2010 -- Moody's has assigned a Aa3 rating to the Mason County PUD No. 3 Electric Revenue and Refunding Bonds Series 2010A and Electric Revenue Bonds Series 2010B (Taxable Build America Bonds - Direct Payment) being issued in the aggregate amount of approximately \$63.1 million. The Aa3 rating affects the district's outstanding \$38.7 million in electric revenue bonds, including the current offering. The Series 2010A bonds refund a portion of the district's outstanding Series 2001 bonds and the Series 2010B funds the construction of a new district headquarters and operations center, as well as the debt service reserve fund and capitalized interest through June 1, 2012. The bonds are secured by net revenues of the district's electric distribution system. The Aa3 rating reflects the district's stable, although limited service area, well-maintained financial operations characterized by healthy debt service coverage and satisfactory cash reserve levels, and satisfactory legal provisions.

**STABLE SERVICE AREA, ALTHOUGH MODEST TIMBER CONCENTRATION IS PRESENT IN CUSTOMER BASE AND ECONOMY**

The district serves most of Mason County, a rural area in western Washington where the local economy has historically relied on the timber industry but has more recently grown as a bedroom community to Olympia to the south and the Bremerton naval base and shipyard to the north. Tourism is also a growing sector in the county's economy. The district's ten largest customers accounted for approximately 11.8% of the district's total revenues from the sale of electricity in fiscal 2009, while the district's largest customer, Simpson Timber Company, with two separate mills, accounted for approximately 4.3% of revenues. Officials report that the loss of Simpson would only result in a 2% rate increase for the district's remaining customers due to the low margins charged to Simpson. The next largest customer accounted for approximately 1.2% of revenues from the sale of electricity. Offsetting this modest concentration, officials report continued expansion of the residential customer base, particularly in eastern Mason County near Bremerton and contributing to the district's steady growth in customers, which grew at an average annual rate of 1.8% from 2004 - 2009. Simpson's rates, as well as residential retail and industrial rates, are slightly above the norm for Washington PUD's, but below that of the investor-owned utilities. Socioeconomic indices for the county are below state norms.

**NEARLY ALL DISTRICT POWER COMES FROM BONNEVILLE POWER ADMINISTRATION**

The district obtains nearly all of its power pursuant to a long-term contract with the Bonneville Power Administration (BPA), having been a statutory preference customer since 1939. Like its peers in the Northwest, the district's ten-year agreement with Bonneville is in effect through 2011. The district's remaining power supply requirements are supplied by various Energy Northwest projects, including the Nine Canyon Wind Project. The district also purchases power from the White Creek Wind Project and owns a 10% share of the Packwood Lake Hydroelectric Project. Additionally, the district owns the Olympic View Generating Station which is comprised of two gas turbines with a combined output of 5.4 MW which the district uses for peaking and emergency purposes. The district has entered into a new load-following contract with BPA which will remain in effect through 2028 and the district currently expects to purchase Tier 2 power from Bonneville.

State Initiative 937 (I-937), which was approved at the November 6, 2006 election, requires electric utilities in Washington that serve more than 25,000 customers to obtain at least (a) 3% of their electricity from renewable resources by January 1, 2012, and each year thereafter through December 31, 2015; (b) 9% of their electricity from renewable resources by January 1, 2016, and each year thereafter through December 31, 2019; and (c) 15% of their electricity from renewable resources by January 1, 2020 and each year thereafter. The district will meet its obligations through its participation in the Nine Canyon and White Creek projects. These projects will meet the district's renewable generation requirement by 2012.

**WELL-MAINTAINED FINANCIAL OPERATIONS**

Moody's expects district officials to continue to raise rates as necessary in response to BPA rate increases in order to maintain satisfactory debt service coverage levels. Since May 2001, when the district raised rates 15%, officials have increased rates five times, including a 3% increase in April 2009. Operations in recent years have been stable and coverage of debt service has been healthy. Annual debt service coverage from fiscal 2002 through 2007 has averaged 3.8 times. Annual debt service coverage in fiscal 2009, buttressed by the 3% rate increase was 3.9 times and

coverage of peak debt service, including the current offering, by fiscal 2009 net revenues is 1.9 times. Financial projections through 2014, which assume annual rate increases of 7.5% in both 2011 and 2012 indicate annual coverage averaging 2.5 times (net of the BABs subsidy 2.3 times). The district has continued to maintain satisfactory financial reserves. In fiscal 2009, net working capital was 53.0% of gross revenues (\$25.9 million) and days cash on hand was 305. These reserve levels exceed the district's target of maintaining at least 120 days of operating and power costs.

#### FAVORABLE DEBT STRUCTURE; SATISFACTORY LEGAL PROVISIONS

District debt levels are currently modest due to the relatively limited capital needs for the district's distribution system. The district's debt ratio was a modest 22.9% in fiscal 2009 and is expected to increase only modestly due to the current offering. The Series 2010A bonds refund a portion of the district's outstanding Series 2001 bonds and the Series 2010B funds the construction of a new district headquarters and operations center, as well as the debt service reserve fund and capitalized interest through June 1, 2012. Satisfactory legal provisions include a rate covenant which requires 1.25 times coverage of annual debt service requirements, a 1.25 times additional bonds test, and a debt service reserve requirement funded at average annual debt service. The bond resolution allows the district to take into account the federal BABs interest subsidy in calculating debt service coverage and in calculating the reserve account requirement

#### KEY STATISTICS

Type of system: Retail electric / BPA preference customer

Estimated 2008 population (Mason County): 57,846

Number of customers, 2009: 32,634

Total customer average annual growth, 2004 - 2009: 1.8%

Total energy sales average annual growth, 2004 - 2009: 2.0%

Fiscal 2009 Ratios

Operating ratio: 75.9%

Annual debt service coverage: 3.87x

Maximum annual debt service coverage: 1.85x

Net working capital as a % of gross revenues: 53.0% (\$25.9 million)

Days cash on hand: 305

Debt ratio: 22.9%

Proforma debt ratio: 44.6%

The last rating action with respect to Mason County PUD No. 3, Washington was on December 4, 2008, when the district's electric revenue bond rating was upgraded to A2 from A3. On April 23, 2010 the district's electric revenue bonds were recalibrated from Moody's municipal rating scale to Moody's global rating scale.

The principal methodology used in rating the Mason County PUD No. 3 Electric Revenue Bonds Series 2010 A&B was "U.S. Public Power Electric Utilities" published in April 2008 which can be found at [www.moody.com](http://www.moody.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

#### Analysts

Patrick Ford  
Analyst  
Public Finance Group  
Moody's Investors Service

Dan Steed  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

#### Contacts

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653



© 2010 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE**

**RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.