MOODY'S
INVESTORS SERVICE

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

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

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