MOODY'S

Rating Action: Moody's assigns Aa2 to Seattle (City of), WA Electric Enterprise's electric revenue bonds, 2023A; outlook stable

27 Jun 2023

Approximately $284.4 million of debt affected

New York, June 27, 2023 -- Moody's Investors Service (Moody's) has assigned Aa2 to Seattle (City of), WA's Electric Enterprise's (Seattle City Light or SCL) $284.4 million of Municipal Light and Power Improvement and Refunding Revenue Bonds, 2023A. The utility's rating outlook is stable.

RATINGS RATIONALE

Seattle City Light's Aa2 rating considers the wealthy and diverse service area covering the City of Seattle (UTGO Aaa/stable) and surrounding communities, SCL's historical willingness to raise rates when necessary, and credit supportive financial policies. Other credit supportive factors are SCL's ownership of low-cost hydro generation, a long-term power supply contract with Bonneville Power Administration (BPA) and SCL's participation in the City of Seattle's multibillion dollar consolidated money pool.

The Aa2 rating also captures long term credit challenges including declining electric load growth relative to the service area's historically strong economic growth, system average rates well above the state average, and SCL's significant debt burden that funded its historically large capital improvement plan (CIP). Also considered in the rating are hydrology risk, wholesale price exposure, and financial metrics typically in the 'A' category with Moody's adjusted debt service coverage ratio (DSCR) averaging at 1.55x and days cash on hand averaging at 138 days from 2014 through 2021.

For 2022, SCL had an exceptional year given above average hydrology, high wholesale power prices, and strong weather driven retail electricity demand. These factors lead to DSCR increasing to almost 2.0x and liquidity increasing to 223 days cash on hand compared to DSCR of 1.71x and liquidity of 156 days cash on hand in 2021. For 2023, we expect the utility's financial performance will revert closer towards its longer term average with DSCR of around 1.60x and around 170 days cash on hand. The moderating of financial performance and liquidity is further driven by below average hydrology and SCL utilizing excess liquidity to reduce debt, a credit supportive use of cash, in an effort to move SCL's liquidity profile closer to the utility's recently established goal of at least 130 days cash on hand. Mitigating this strategy to lower liquidity are the existence of various restricted reserve accounts at SCL and the utility's continued participation in the City of Seattle's multibillion dollar consolidated money pool which SCL has borrowed from in the past when needed. Longer term, the utility is expected to maintain financial metrics consistent with historical financial performance and commensurate with its financial policies and goals resulting in a Moody's adjusted DSCR averaging at least 1.50x and liquidity of at least 130 days cash on hand.

Also supporting the utility's financial performance is a strong local economy. As of April 2023, Seattle's economy remains strong with unemployment rate at 2.5% (P) compared to the US average of 3.4%. Additionally, SCL has continued to control the growth of its CIP with its 6-year program at $2.33 billion, which was a 1.4% decrease compared to last year and only 2.4% higher compared to 2019's six-year plan. The utility's capital discipline has substantially moderated the growth of its direct debt outstanding, which has grown by only 3% from 2019 to 2022.

RATING OUTLOOK

The stable outlook considers the strong local economy and our expectation that the utility will maintain liquidity of at least 130 days cash on hand and adjusted DSCR averaging at least 1.50x or higher.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

SCL's rating could improve if Internal liquidity comfortably exceeds 200 days cash on hand and adjusted DSCR exceeds 2.0x on a sustained basis.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

SCL's rating could be downgraded if its financial policies are materially weakened, the willingness to increase rates diminishes, the underlying regional economy sustains a severe and sustained deterioration or liquidity support through the City of Seattle's money pool is restricted. Furthermore, the utility's rating could also be downgraded if internal liquidity drops below 90 days cash on hand or Moody's adjusted DSCR drops below 1.50x on a sustained basis.

LEGAL SECURITY

SCL's bonds benefit from a pledge of the net revenues of SCL and covenants require that the City of Seattle set rates to fund debt service, operating costs and other costs to maintain the system. Moody's considers the rate covenant to be weaker than typical for similar issuers. For additional indebtedness, SCL is required to meet a 1.25x DSCR based on net system revenues incorporating draws from and deposits into the RSA. Furthermore, the bonds have a debt service reserve for all parity bonds sized to the lesser of maximum annual debt service or reasonably required reserve or replacement fund per the tax code. The reserve is currently sized to 125% of average annual debt service (excluding variable rate debt). Post issuance, the reserve is expected to be funded with a $71.5 million surety from Assured Guaranty Municipal Corp (insurance financial strength: A1 stable) and $104 million of cash.

USE OF PROCEEDS

Bond proceeds from the 2023A bonds will be used to refund all or portion of the Series 2012A and 2013 bonds, fund capital spending, and pay transaction costs.

PROFILE

Seattle City Light is a department of the City of Seattle, which operates a utility system that primarily generates and delivers electricity to approximately 494,000 customers in the City of Seattle and several surrounding communities under franchise agreements. The City of Seattle is in the western part of Washington State and is a commercial hub for the Pacific Northwest. SCL's service area is comprised of 131 square miles and has a population of approximately 961,000.

METHODOLOGY

The principal methodology used in this rating was US Public Power Electric Utilities with Generation Ownership Exposure published in January 2023 and available at https://ratings.moodys.com/rmc-documents/398041. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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Clifford Kim
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Angelo Sabatelle
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376

Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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