CREDIT OPINION
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Contacts

William Oh *VP-Senior Analyst* william.oh@moodys.com	+1.415.274.1739
Kurt Krummenacker *Associate Managing Director* kurt.krummenacker@moodys.com	+1.212.553.7207
Liam Kan *Ratings Associate* liam.kan@moodys.com	+1.647.417.6313

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Seattle (City of) WA Electric Enterprise

Update to credit analysis

Summary

Seattle (City of) WA Electric Enterprise's (Seattle City Light or SCL, Aa2 stable) credit profile is supported by the utility's economically diverse, stable and wealthy service area that includes the City of Seattle (Aaa stable) and surrounding communities. Despite some large customers within SCL's service territory, the enterprise is not materially exposed to customer concentration, with the ten largest customers generating 16.3% of revenue. Additionally, many of those customers have strong underlying credit quality, including the University of Washington (Aaa negative), Amazon.com Inc (A1 stable) and King County (Aaa stable).

Although the utility's rates are marginally more expensive than several nearby load serving entities, SCL benefits from a service territory monopoly and has a demonstrated willingness to raise rates when necessary, as well as other credit-supportive financial policies. Financial performance has been strong, with 3-year adjusted debt service coverage at 1.71x at the end of 2023 and 193 adjusted days cash on hand. SCL also benefits from its participation in the city's consolidated money pool, which SCL has borrowed from in the past.

SCL's ownership of low-cost and carbon-free hydro generation and longer-term power supply contract with Bonneville Power Administration are generally supportive of the electric enterprise's rating, though it is exposed to hydrological risks. Meaningfully below-average water years can result in lower than budgeted wholesale revenue and higher than budgeted power expenses, such as in 2023.

Financial leverage for the electric enterprise is moderate, with a 3-year average adjusted debt ratio of 64.1% at the end of 2023. SCL's proposed capital improvement program through 2029 is fairly sizeable at $2.8 billion (inclusive of 2024), though it expects to finance that with a mix of bonds (60%) and cash from operations (40%), which should help maintain its targeted debt-to-fixed asset ratio of under 60%.

Credit strengths

» Strong and diverse service area anchored by the City of Seattle

» Demonstrated willingness to set rates

» Supportive financial policies

» Ownership of low cost hydro and contracted power from BPA

» Liquidity support through the City of Seattle's consolidated cash pool

Credit challenges

» Decoupling of retail electricity demand from economic growth

» Large, ongoing capital spending program

» Hydrology and wholesale market risk

» 'A' category financial metrics

» Average system rates above state average

Rating outlook

The rating outlook for SCL is stable, reflective of a strong local economy and expectations that the utility will continue to maintain liquidity above 130 DCOH and adjusted DSCR above 1.5x.

Factors that could lead to an upgrade

» Sustained DCOH above 200 and adjusted DSCR above 2x

Factors that could lead to a downgrade

» Sustained decline in internal liquidity below 90 DCOH or adjusted DSCR below 1.5x

» Material weakening of SCL's financial policies

» Severe and sustained deterioration in the underlying service territory economy

Key indicators

Exhibit 1

	2019	2020	2021	2022	2023
Total Sales (mWh)	12,439,054	12,247,934	12,786,249	12,176,960	11,166,691
Debt Outstanding ($'000)	2,567,100	2,533,500	2,587,300	2,643,500	2,635,700
Debt Ratio (%)	54.6	51.8	50.9	49.3	48.2
Adjusted Debt Ratio (%)	70.2	69.7	69.2	64.7	58.4
Total Days Cash on Hand (days)	173	133	172	240	167
Fixed Obligation Charge Coverage (if applicable)(x)	1.70	1.51	1.71	1.97	1.45

Source: Moody's Ratings, SCL's audited financials

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 503,221 customer accounts 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 941,000.

Detailed credit considerations

Revenue Generating Base: Strong and diversified Seattle service territory; heavily dependent on hydroelectric generation

A key credit strength for SCL is its service territory and customer base, which includes the City of Seattle (Aaa stable) and surrounding communities. Seattle is located in King County, WA (Aaa stable), which is the economic center of the Pacific Northwest region.

Socioeconomic measures for the area are among the strongest in the country, including extremely high median household income and low unemployment and poverty rates. Software development and aircraft manufacturing are key components of the local economy, and the area serves as the headquarters or major operating base to some of the world's most well-known international corporations, including Amazon (A1 stable), Boeing (Baa3 negative), Microsoft (Aaa stable) and Starbucks (Baa1 stable).

Most of the utility's revenue is derived from retail power sales (87% of operating revenue, excluding rate stabilization transfers), which have historically proven fairly stable as measured by load and revenue, with variance typically driven by weather conditions. Approximately 90% of SCL's accounts are residential, with most of the remainder reflective of commercial accounts and a limited number of industrial users. By load, commercial accounts represented 57% of sales in 2023, followed by residential (35%) and industrial (8%), which is in-line with recent historical patterns. Load has been flat to declining over the past decade, with improvements in energy efficiency outpacing demand from strong economic growth. However, with a strong push towards electrification - including expanded adoption of electric vehicles, heat pumps and air conditioning - SCL expects 0.7% annual retail load growth through 2030, followed by 1.3% in the decade following.

SCL's power supply and management of its resource portfolio are supportive credit features, though its high exposure to hydroelectric generation is both a source of credit strength as well as some credit risk. In total, the utility owns hydroelectric generation resources with a combined nameplate capacity 2,003 MW, including the Boundary Project (1,118 MW), the Skagit Project (837 MW) and the Cedar Falls and South Fork Tolt projects (48 MW). Additionally, SCL has various purchased resources that are also predominantly hydro, including a shaped block product from Bonneville Power Administration that includes both hydro and thermal project resources, wholesale market purchases, exchange agreements and other long-term contracts; in 2023, 61% of total resources were from purchased power. In general, the reliance on hydroelectric generation has been beneficial for SCL, as it is a source of carbon-free, low-cost power. However, in some years, such as 2023 and 2024, adverse water conditions can result in higher than budgeted power purchase costs and lower than budgeted wholesale revenue. Consequently, under its most recent integrated resource plan as well as its projected financials, SCL expects to begin incorporating non-hydro renewable resources into its power supply portfolio and moderating its budgeted wholesale revenue forecast.

Financial Operations and Position: Healthy financial metrics support by strong financial policies, liquidity backstop from the city

SCL's financial profile is a supportive credit factor, even in unusually low water years (like 2023). In 2023, debt service coverage (after transfers) was 1.45x on a Moody's adjusted basis (1.74x on a bond ordinance basis), the lowest since 2015, with net revenue impacted by net wholesale revenue that came in substantially below budget and operating expenses that were driven higher by pensions and purchased power costs. The three-year average of SCL's debt service coverage (on a Moody's adjusted basis) is a solid 1.71x. SCL is projecting 2024 DSCR on a bond ordinance basis to be just over 2.0x, assuming mostly normal weather for the remainder of the year. For 2025 and 2026, SCL expects to exceed its 1.8x minimum coverage policy goal based on a forecast that includes 5.4% rate increases (not yet approved) in both years on top of flat load growth, as well as lower net wholesale revenue in 2025 that recovers in 2026 from the addition of surplus sales from new renewables.

Seattle's city council has demonstrated a willingness to raise retail rates to support SCL's financial condition, a key supportive credit factor. Rates have been increased annually for more than a decade, and SCL's strategic plan for 2025-2030 includes proposed rate increases of at least 5% annually, which management believes will be supported by council.

In addition to council approved rates, SCL's financial profile is supported by various policies and proposed targets that include setting rates to achieve minimum 1.80x DSCR (with a 1.9x rolling six-year average); funding 40%+ of its capital spending with operating cash flow; 150 available DCOH; and the Rate Stabilization Account (RSA). The RSA balance is evaluated every six months (March and September), and a 2% surcharge is added if the RSA balance falls below $75 million and a 4% surcharge is added if the RSA balance falls below $50 million. The surcharge remains on until the RSA balance reaches $100 million, at which point the surcharge is lifted. Currently, the 4% surcharge is in effect and is expected to remain in place into 2025, with SCL's forecast showing a balance greater than $100 million in 2026. Notably, RSA surcharges do not require council action.

While the utility's long history rate increases and other adjustments is credit positive, the extent of the rate increases has resulted in the diminishing of SCL's rate competitiveness. Based on EIA data, SCL's average retail rate is in-line with most nearby utilities but modestly above the state average.

Liquidity

SCL internal liquidity is satisfactory but the utility benefits substantially from its participation in the city's consolidated cash pool. SCL's standalone liquidity consists of unrestricted funds and balances in the RSA account that equaled 167 DCOH at the end of 2023, down from 240 DCOH in 2022 but above six of the last ten years. SCL's three-year average of DCOH through the end of 2023 was 193, which is healthy.

Supplementing the utility's internal liquidity is its participation in the City of Seattle's consolidated cash pool, which held $3.7 billion at the end of 2023. Seattle's Director of Finance is authorized to make loans to Seattle's various enterprise funds including SCL for up to 90 days. For loans beyond the 90-day period, city council approval is required. Loans bear interest at the cash pool's rate of return. The City of Seattle's willingness to provide liquidity support to SCL via the cash pool has been demonstrated on several occasions, including during the 2001 power crisis when SCL borrowed up to $107 million from the cash pool and again in 2010 when SCL borrowed $14 million.

Debt and other liabilities

SCL's financial leverage is moderate, with an adjusted debt ratio of about 58.4% at the end of 2023, reflective primarily of approximately $2.6 billion in outstanding revenue bonds and about $537 million in pension liabilities (as adjusted by Moody's). SCL has a fairly sizeable proposed capital improvement program (CIP) through 2029 of about $2.8 billion, of which 60% is expected to be funded through bonds and the remaining 40% from cash flow from operations, contributions and grants. The CIP is mostly focused on distribution ($1.54 billion), with an additional $639 million for power supply; the remaining amounts are spread across various other project types.

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 (A1 stable) and $107.6 million of cash.

Debt structure

Most of SCL's debts are traditional fixed rate obligations that fully amortize over time. The only exception is around $186.4 million of variable rate debt, issued in 2021 and 2023. The 2021 Series B bonds do not have additional credit support, but the 2023B bonds are supported by a letter of credit from TD Bank, NA.

Debt-related derivatives

SCL does not have any debt related derivatives.

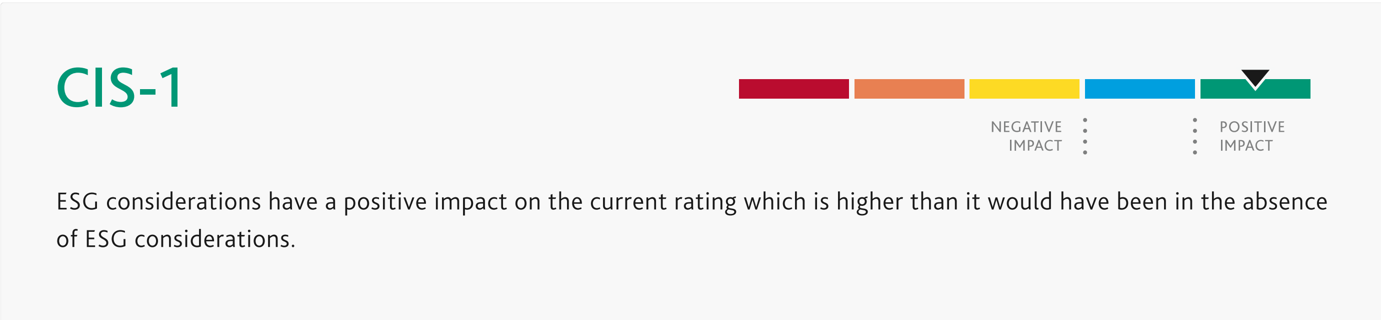
Pensions and OPEB

SCL participates in the City of Seattle's single-employer defined-benefit public employee retirement plan (SCERS). Moody's calculates the utility's adjusted net pension liability (ANPL) for 2023 relating to its proportionate share of SCERS to be around $537 million, compared to the utility's reported proportionate share of the net pension liability of around $302 million. Moody's adjusts the reported pension liabilities of entities that report under governmental accounting standards, to enhance comparability across rated issuers. Under governmental pension accounting, liabilities are discounted using an assumed rate of investment return on plan assets. Under our adjustments, we value liabilities using a market based discount rate for high quality taxable bonds, a proxy for the risk of pension benefits.

ESG considerations

Seattle (City of) WA Electric Enterprise's ESG credit impact score is CIS-1

Exhibit 2
ESG credit impact score



Source: Moody's Ratings

Seattle (City of) WA Electric Enterprise's (Seattle City Light or SCL) ESG Credit Impact Score is positive (**CIS-1**). Its ESG attributes are considered to have a positive impact on the current rating. SCL's **CIS-1** reflects moderate environmental risks, neutral-to-low social risks, and positive exposure to governance risks.

Exhibit 3
ESG issuer profile scores

Source: Moody's Ratings

Environmental

E-3. Seattle City Light is exposed to physical climate risks mostly in the form of volatile weather patterns. While SCL benefits from its predominantly carbon-free hydroelectric generation resources, it is also exposed to additional risk from regional hydrological conditions.

Social

S-2. SCL has limited exposure to social risks, though rising retail power prices could become a constraint in future years.

Governance

G-1. SCL benefits from its access to the City of Seattle's multi-billion-dollar consolidated money pool that serves as an important additional source of liquidity. Although the city council must approve the utility's rates and policies, there is a strong history of SCL receiving support from council for its recommendation. The utility has a solid track record of meeting its financial targets, as well as satisfying compliance and reporting standards.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

Moody's evaluates Seattle City Light under the US Public Power Electric Utilities with Generation Ownership Exposure methodology and the scorecard indicated outcome is Aa2, in line with its current Aa2 rating. The +1.0 notch for debt structure and reserves reflects the utility's access to the city's treasury pool for liquidity.

The grid is a reference tool that can be used to approximate credit profiles for public power with generation ownership in most cases. However, the grid is a summary that does not include every rating consideration. Please see US Public Power Electric Utilities with Generation Ownership Exposure for more information about the limitations inherent to grids.

Exhibit 4

SCL's methodology scorecard

Factor	Subfactor	Score	Metric
1. Cost Recovery Framework Within Service Territory		Aaa	
2. Wllingness and Ability to Recover Costs with Sound Financial Metrics		Aa	
3. Generation and Power Procurement Risk Exposure		A	
4. Competitiveness	Rate Competitiveness	Baa	
5. Financial Strength and Liquidity	a) Adjusted days liquidity on hand (3-year avg) (days)	Aa	193
	b) Adjusted Debt ratio (3-year avg) (%)	A	64.1%
	c) Adjusted Debt Service Coverage or Fixed Obligation Charge Coverage (3-year avg) (x)	A	1.71x
Preliminary Grid Indicated rating from Grid factors 1-5		Aa3	
		Notch	
6. Operational Considerations		0.0	
7. Debt Structure and Reserves		1.0	
8. Revenue Stability and Diversity		0.0	
Grid Indicated Rating:		Aa2	

Source: Moody's Ratings

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