S&P Global
Ratings

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Summary:

Seattle; Retail Electric; Wholesale Electric

Primary Credit Analyst:
Doug Snider, Englewood + 1 (303) 721 4709; doug.snider@spglobal.com

Secondary Contact:
Alexandra Rozgonyi, Englewood + 1 (303) 721 4824; alexandra.rozgonyi@spglobal.com

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Credit Profile		
US$202.5 mil mun light and pwr imp and rfdg rev bnds ser 2024 due 08/01/2034		
Long Term Rating	AA/Stable	New
Seattle mun lt & pwr rev bnds		
Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' rating to Seattle's $202.5 million municipal light and power improvement and refunding revenue bonds, 2024.
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating and underlying rating (SPUR) on Seattle's electric system revenue bonds outstanding. The utility does business as Seattle City Light (SCL).
- The outlook is stable.

Security

Seattle pledges the electric system's net revenue to the bonds. The city will use approximately $220 million of series 2024 bond proceeds to finance electric system capital to currently refund various SCL bonds outstanding.

Credit overview

The 'AA' rating reflects SCL's ability to sustain robust coverage and liquidity through various hydrological and economic conditions. This is offset somewhat, in our view, by the utility's concentration in hydroelectric generation, from both owned assets and power purchases. This concentration exposes the utility to uneven surplus sales given fluctuations in hydrology.

The rating further reflects our view of the following strengths:

- The maturity and diversity of SCL's generally affluent, mature, and diverse service area, coupled with its stable customer base, contribute to credit stability.
- Management has established several credit supportive policies and programs, such as its a rate stabilization account (RSA) and accompanying rate adjustment mechanism, that help offset some of the impacts of hydrological variability.

These strengths are offset somewhat by the following factors:

- SCL expects the system will begin to experience rising energy demand within the next two years, for the first time in well over a decade, as electrification proliferates within the utility's service territory. This new growth translates to additional planning challenges, as SCL must balance the reliability, affordability, and carbon attributes of new prospective resources.

- SCL has a large capital plan (predominantly composed of distribution investments, but with growing power supply expenses in the out-years), which translates to rising cash outflows and debt service costs.
- The utility projects annual rate increases of 5.4% through 2026, followed by annual 5.0% increases through 2030, to meet rising power supply and general operating costs, which could constrain ratemaking flexibility.

Environmental, social, and governance

SCL's environmental factors are credit neutral. SCL predominantly sources its power through non-carbon-emitting hydroelectric resources, which limits the utility's exposure to many challenges of legislative and regulatory initiatives to reduce greenhouse gas emissions. The utility is compliant with Washington's renewable portfolio standard (I-937) and well positioned to comply with its decarbonization bill, the Clean Energy Transition Act, through its existing low-carbon portfolio (well north of 80% of identified carbon-free resources in 2023), eligible energy purchases, demand management and efficiency programs, and the acquisition of renewable energy credits as needed. We believe the continued costs of complying with mandates will be manageable, given management's proactive approach and the existing portfolio of assets, but will closely monitor the impact of new, potentially higher priced, energy resources.

However, SCL's reliance on a network of hydroelectric dams exposes the utility to potentially substantial ongoing remediation costs for fish passage and habitats. In addition, we consider physical climate risk as slightly elevated, given that the city is adjacent to Puget Sound and is exposed to storm surges and other extreme events related to sea-level rise.

We view SCL's social factors as credit neutral. The utility's weighted-average electric rates are above the state average, indicating potential affordability challenges. However, the service area's above-average incomes, the nominally low electric rates, and the utility's low-income utility discount program mitigate this risk. We continue to monitor the strength and stability of electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion. Inflation as measured by the Consumer Price Index (CPI) has remained above 3% in recent months, and S&P Global Economics forecasts elevated interest rates persisting at least until December. (See "Persistent Above-Target Inflation Will Delay The Start Of Rate Cuts In The U.S.," published May 1, 2024, on RatingsDirect.) In addition, Bureau of Labor Statistics data shows that electricity price inflation continues to outpace the overall CPI. The amalgam of material increases in delinquent consumer, credit card, and auto loans, along with the resumption of student loan payments and drawdowns of household savings garnered during the pandemic, will likely compound the financial pressures facing electricity consumers.

Finally, we view the system's governance factors as credit supportive, as they include full rate-setting autonomy; strong policies and planning, including robust cybersecurity risk mitigation and proactive management of hydrology risk; and robust interaction between management and the city council.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that SCL will maintain liquidity and fixed-charge coverage (FCC) in line with projected levels through rate-stabilization policies, rate increases, and continued conservative revenue forecasting.

Downside scenario

We could lower the rating if rising debt service requirements, sustained adverse hydrological conditions, increasing power supply costs from Bonneville Power Administration or prospective resource additions, and/or increased spending on regulatory compliance result in materially higher retail rates or a weakened competitive position that frustrates SCL's ability to maintain liquidity and achieve FCC commensurate with forecast levels.

Upside scenario

We do not expect to raise the rating in the next two years, given SCL's large capital improvement plan and additional debt, coupled with a financial forecast that indicates largely flat financial metrics. A higher rating would be predicated upon a financial profile that materially outpaced financial projections as SCL progresses through its capital program.

Credit Opinion

With more than 500,000 customers, SCL is the largest municipal utility in the state of Washington. It provides service within Seattle and surrounding areas of King County. The utility's predominantly hydroelectric power supply portfolio is low cost and virtually carbon free. It provides power to a stable customer base with access to a broad and diverse economy with low industrial concentration and stable economic fundamentals. We believe these factors contribute to SCL's economies of scale and provide the utility with revenue stability and operational flexibility.

SCL's operational profile is highlighted by its primarily hydroelectric assets that are high quality and low cost. However, the concentration in hydroelectric resources exposes the utility to above-average price volatility with respect to surplus sales, although SCL's RSA and cost adjustment offset this risk somewhat. The utility's most recent integrated resource plan explores the addition of relatively higher-priced wind and solar resources to address load growth and to maintain compliance with state renewable and decarbonization mandates.

We view favorably management's comprehensive risk management practices, which include long-term financial planning, capital planning, and a dynamic power supply management strategy that should position the utility well in the face of evolving state and federal regulations.

Due to conservative budgeting, management has reduced its reliance on, and potential revenue volatility from, surplus energy sales. A portion of wholesale net revenue comes from forward sales of typically nine months or less, and SCL maintains strict limits on the portion of its surplus position made available for forward sales to avoid potentially high replacement power costs in low-water years. S&P Global Ratings believes the system's risk management policies are conservative, and reduce the risk related to forward sales. Nevertheless, in below-average hydro years the system's net wholesale revenues can dramatically decrease, as evidenced by 2023's relative decline in financial performance.

In our view, management has established an excellent track record of rate setting, as evidenced by SCL's generally robust and stable financial metrics, further supported by the utility's two automatic pass-through mechanisms. However, according to information from the Energy Information Administration, Seattle's average overall rates exceed the state average by about 18%, suggesting that despite solid demographics, there are some constraints to revenue-raising flexibility. Seattle's competitive position could erode, given projected annual rate increases of 5.0%-5.4% through 2030. This risk is tempered, in our view, because SCL's nominal rates are low compared with those of other major cities.

SCL has exhibited generally robust financial performance but has experienced some variability due to changes in hydrological conditions. Although FCC averaged more than 1.6x over the past three years, 2023 coverage declined to 1.34x following poor hydrological conditions. Our calculations based on management's projections suggest FCC will return to 1.6x-1.7x, which remains commensurate with the rating. We note that the utility's actual performance consistently meets or exceeds projected levels, highlighting management's conservative budgeting practices.

The utility's liquidity position is strong. When including the $65 million RSA, liquidity totaled $329 million as of Dec. 31, 2023, or about 134 days' operating expenses. This represents a decrease from 2022 levels, which exceeded 200 days, following elevated capital spending and O&M cost increases. SCL also has access to interdepartment loans from the city's cash pool of $3.7 billion, which the utility could access in the event of a liquidity emergency. Liquidity is projected to remain generally steady, at 133-148 days over the next three years.

Finally, SCL has a moderate debt burden, characterized by a 52% debt-to-capitalization ratio in fiscal 2023. The utility's five-year capital improvement plan totals $2.8 billion, with about 40% to be funded through operating revenue (after third-party contributions) and the remaining 60% through debt. Leverage is projected to remain largely in line with current levels.

Seattle City Light, Washington--Key credit metrics

	--Fiscal year ended Dec. 31--		
	2023	**2022**	**2021**
Operational metrics			
Electric customer accounts (no.)	503,221	493,663	485,155
% of electric retail revenues from residential customers	39	40	41
Top 10 electric customers' revenues as % of total electric operating revenue	16	16	16
Service area median household effective buying income as % of U.S.	151	151	146
Weighted-average retail electric rate as % of state	116	116	118
Financial metrics			
Gross revenues ($000s)	1,255,400	1,289,300	1,170,400
Total operating expenses less depreciation and amortization ($000s)	897,957	767,200	741,600
Debt service ($000s)	246,800	230,241	222,781
Debt service coverage (x)	1.4	2.3	1.9
Fixed-charge coverage (x)	1.3	2.0	1.6
Total available liquidity ($000s)*	329,000	423,600	292,500
Days' liquidity	134	202	144
Total on-balance-sheet debt ($000s)	2,635,700	2,643,500	2,587,300
Debt-to-capitalization (%)	52	54	56

*Total available liquidity includes available committed credit line balances, where applicable. Debt service coverage--Revenues minus expenses divided by debt service. Fixed-charge coverage--Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy). N.A.--Not available.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of June 24, 2024)		
Seattle mun lt and pwr imp and rfdg rev bnds ser 2022 due 07/01/2052		
Long Term Rating	AA/Stable	Affirmed
Seattle mun lt & pwr imp rev bnds ser 2019A dtd 2//20/08/2 due 04/01/2049		
Long Term Rating	AA/Stable	Affirmed
Seattle mun lt & pwr rfdg rev bnds ser 2019B dtd 08/22/2019 due 02/01/2026		
Long Term Rating	AA/Stable	Affirmed
Seattle mun lt & pwr (BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.