Seattle City Light

Memorandum

DATE: April 24, 2014

TO: Mayor Ed Murray
Seattle City Council

FROM: Jorge Carrasco Jorge Carrasco

SUBJECT: Financial Update – March 2014

This memo provides an analysis of Seattle City Light's financial condition and operating results through March 31, 2014. The attached Income Statement Analysis, which is summarized in the chart below, provides a summary of how City Light performed year-to-date in 2014 compared to the same period of the previous year and the year-to-date 2014 Financial Plan. In addition, we have provided a forecast of City Light's financial results through December 2014 compared to the 2014 Financial Plan. The 2014 Financial Plan is based on the revenues and expense projections included in the adopted budget for 2014.

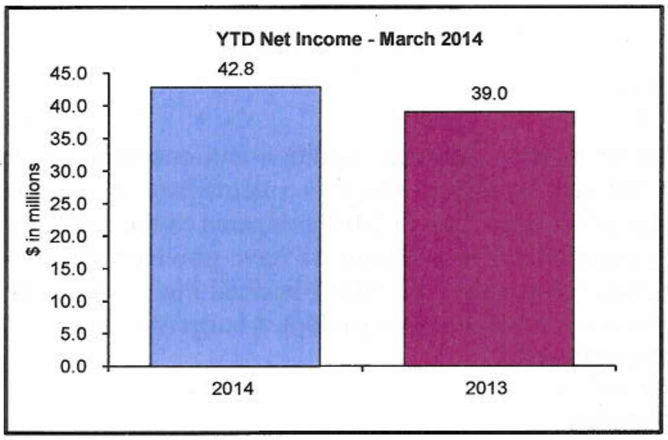
FINANCIAL HIGHLIGHTS
March 2014
($ millions)

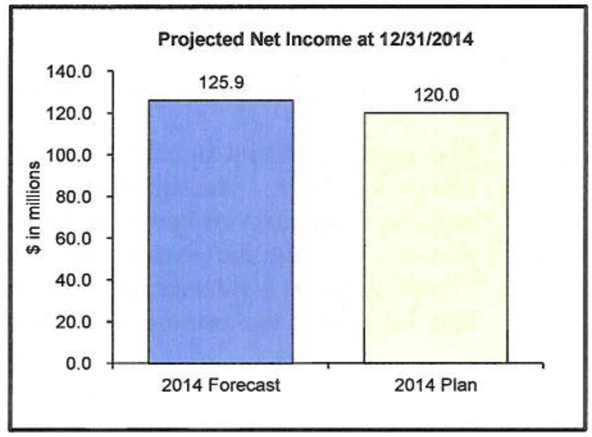
	Year-to-date Plan	Year-to-date Actual		Year End Dec. 31		Forecast change from prior month
	2014	2014	2013	Plan	Forecast	
Retail Power Revenues[1]	$ 206.2	$ 205.0	$ 194.3	$ 753.9	$ 754.5	$ 1.8
Net Wholesale Energy Sales[2]	$ 25.5	$ 22.6	$ 23.6	$ 85.0	$ 74.6	$ 16.5
Net Power O&M	$ (80.2)	$ (79.3)	$ (79.3)	$ (265.0)	$ (264.1)	$ 1.9
Net Non-Power O&M	$ (48.6)	$ (48.9)	$ (42.9)	$ (222.5)	$ (221.2)	$ (1.0)
RSA Transfers, Net[3]	$ (1.8)	$ 2.0	$ 5.7	$ (2.7)	$ 8.1	$ (17.0)
Taxes, Depreciation & Other	$ (60.7)	$ (58.6)	$ (62.4)	$ (228.8)	$ (225.9)	$ 3.6
Net Income	**$ 40.3**	**$ 42.8**	**$ 39.0**	**$ 120.0**	**$ 125.9**	**$ 5.8**
Operating Cash	$ 196.0	$ 159.9	$ 160.6	$ 248.5	$ 120.6	$ (110.6)
Construction Account - Restricted	$ -	$ 2.1	$ 32.2	$ -	$ 100.6	$ 100.6
Rate Stabilization Account	$ 111.8	$ 107.9	$ 122.6	$ 112.6	$ 101.9	$ 17.0
Bond Reserve	$ 46.8	$ 46.9	$ 34.2	$ 69.8	$ 69.9	$ 0.0
Other Restricted Assets	$ 28.3	$ 29.0	$ 26.4	$ 11.9	$ 11.9	$ -
Total Cash	**$ 383.0**	**$ 345.8**	**$ 376.0**	**$ 442.9**	**$ 404.9**	**$ 6.9**
Debt Coverage Ratio	n/a	n/a	n/a	**1.9**	**1.9**	**0.0**
Debt to Capitalization Ratio	**60.2%**	**60.2%**	**61.3%**	**60.9%**	**60.8%**	**-0.1%**

(1) Retail power revenues include revenues such as Green Power Program and power factor charges.
(2) Revenue from wholesale sales, before booked out long term purchases.
(3) Transfers from the RSA less transfers to the RSA.

Year-to-Date Net Income, Relative to 2013

As indicated in the table on the previous page and in the charts below, net income for the period ending March 31, 2014 was $42.8 million, which is $3.8 million or 9.7% higher compared to the same time period in 2013. This increase is primarily due to higher retail power revenue as a result of the $.009/kWh BPA passthrough effective October 1, 2013 and the 5.6% system average rate increase effective January 1, 2014.

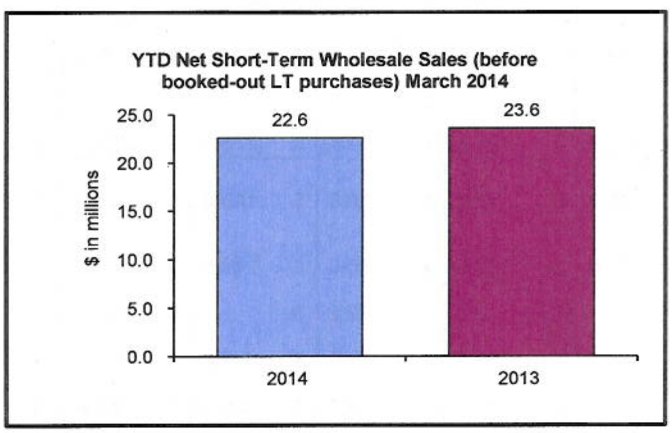


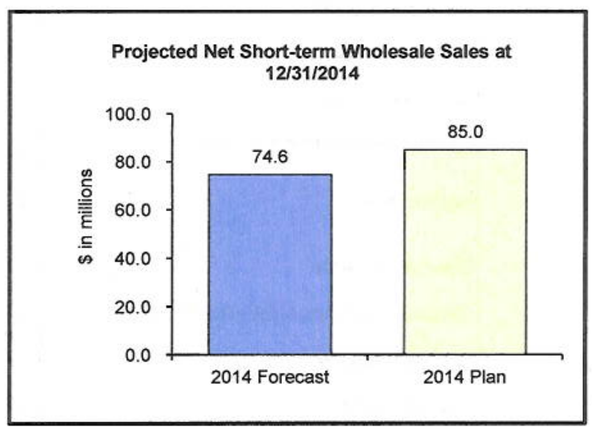


Projected Year-end Net Income, Relative to Plan

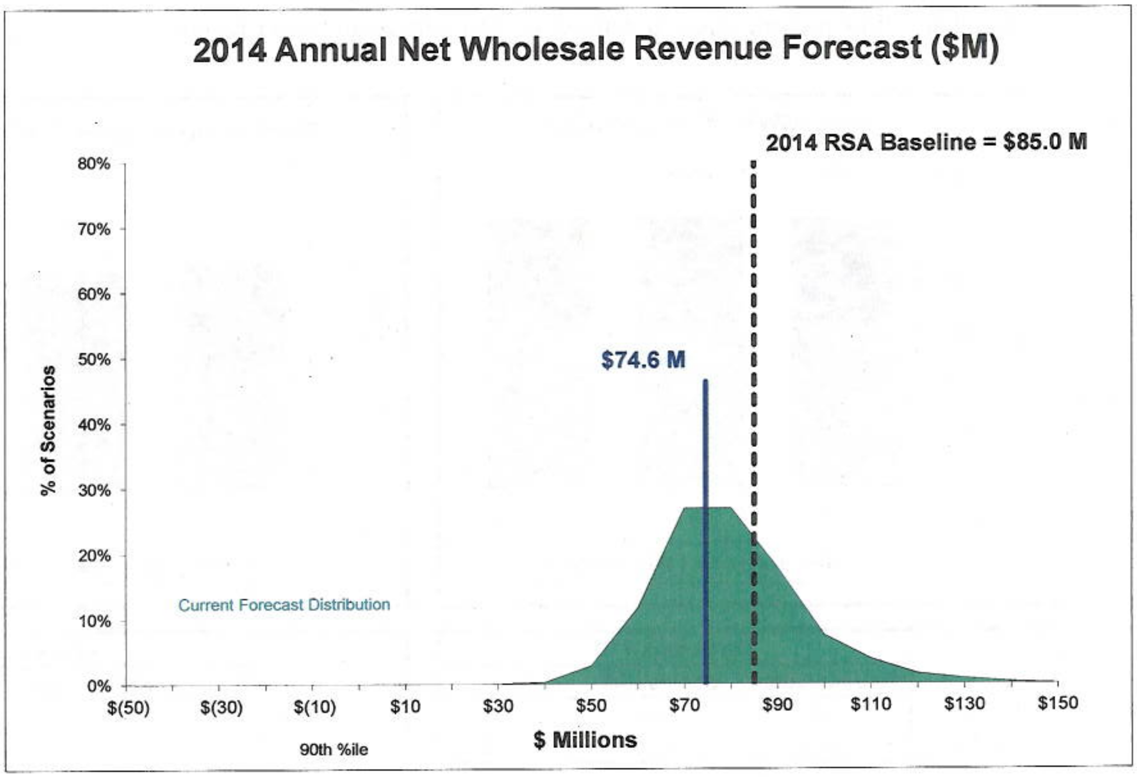
Projected net income at year-end, 2014 is expected to be $125.9 million, which is $5.9 million or 4.9% higher than Planned. This difference is primarily due to lower interest accruals resulting from postponing the bond issue from June to October.

Net Short-Term Wholesale Energy

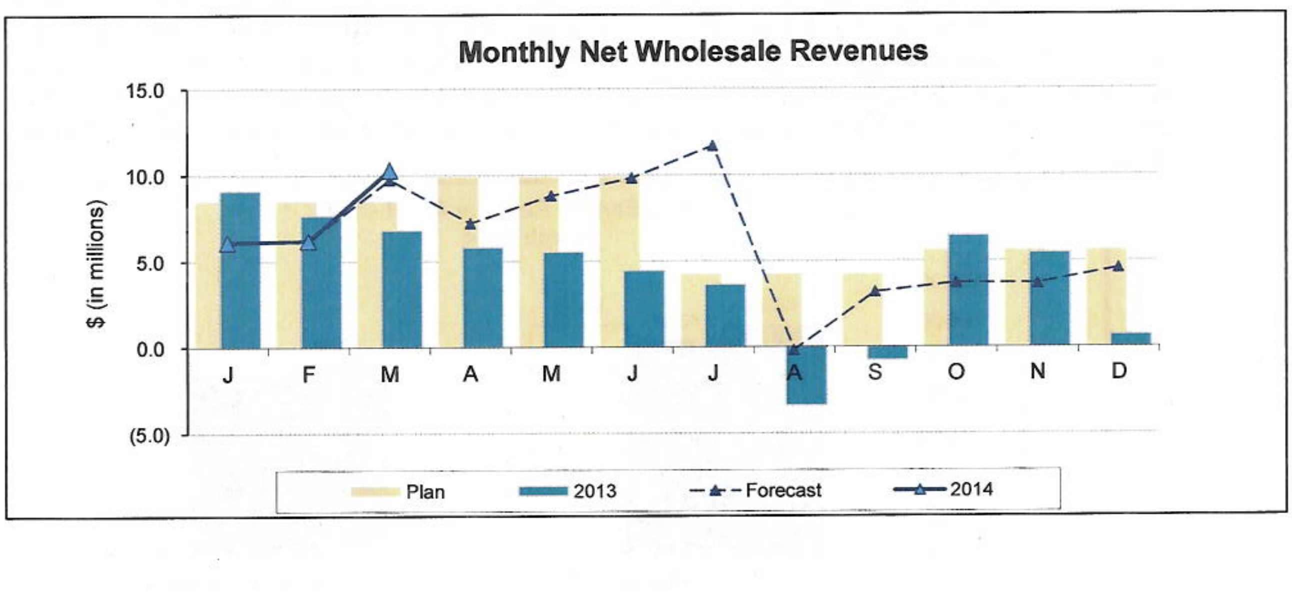




The projections of net short-term wholesale energy sales change weekly due to changes in water conditions, economic factors such as the price of natural gas, system load and the availability of surplus energy for resale. The current estimate of year end net wholesale revenue is $74.6 million, which is $10.4 million lower than the $85M 2014 RSA Baseline.

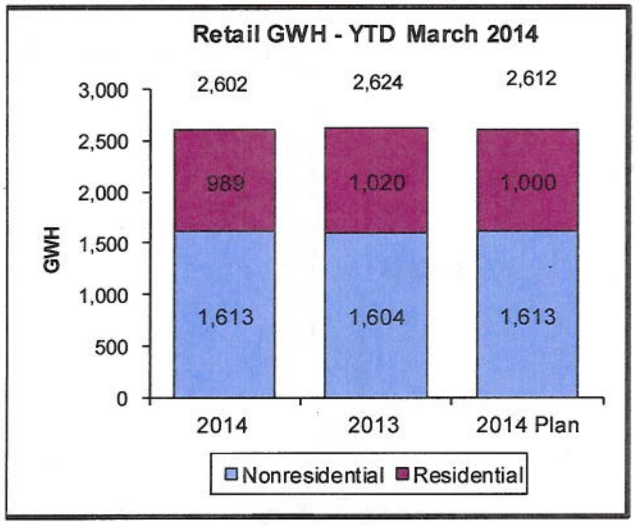


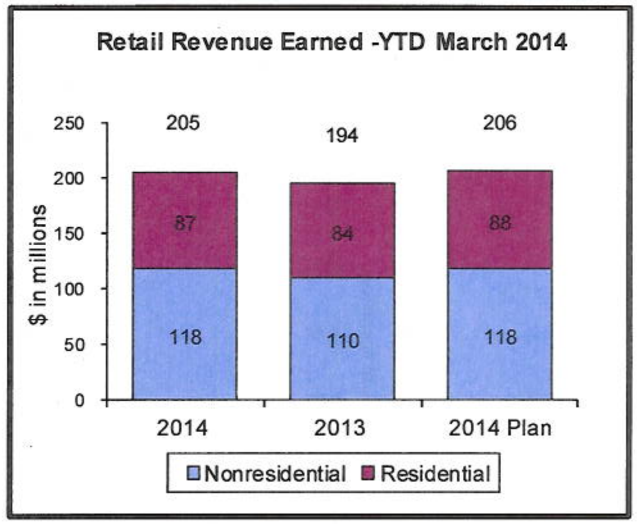
In March 2014 net wholesale revenues were $10.3 million. March wholesale revenue was $3.5 million higher than in March 2013 due to significantly higher hydro volumes.



Retail Power Revenues

The charts that follow present selected data on year-to-date retail power revenues.

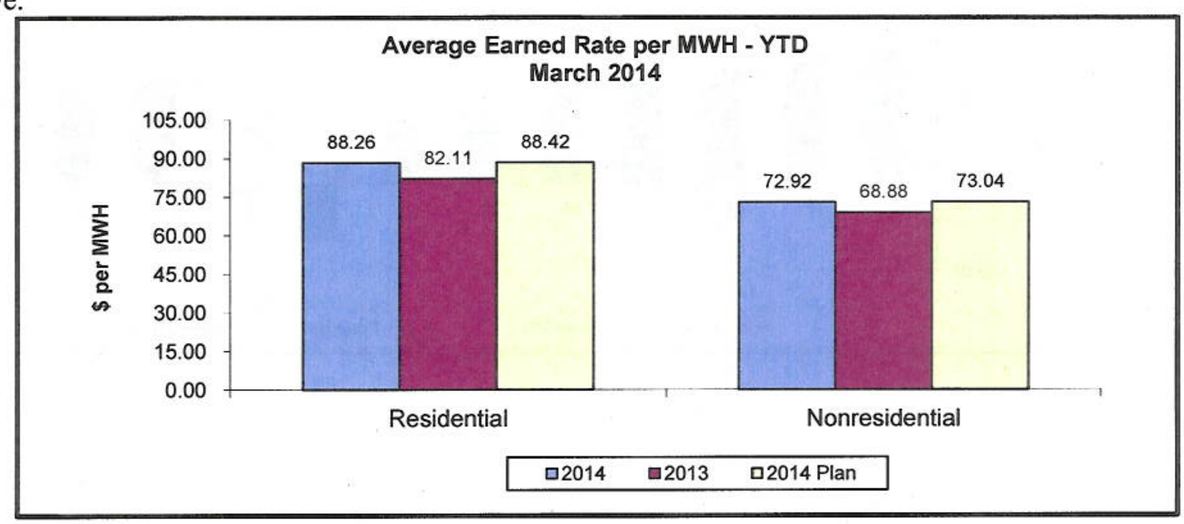




	Retail MWh YTD		
	Nonresidential	Residential	Total
2014 vs 2013	0.6%	-3.0%	-0.8%
2014 vs Plan	0.0%	-1.0%	-0.4%

	Retail Revenue YTD		
	Nonresidential	Residential	Total
2014 vs 2013	6.5%	4.3%	5.5%
2014 vs Plan	-0.1%	-1.2%	-0.6%

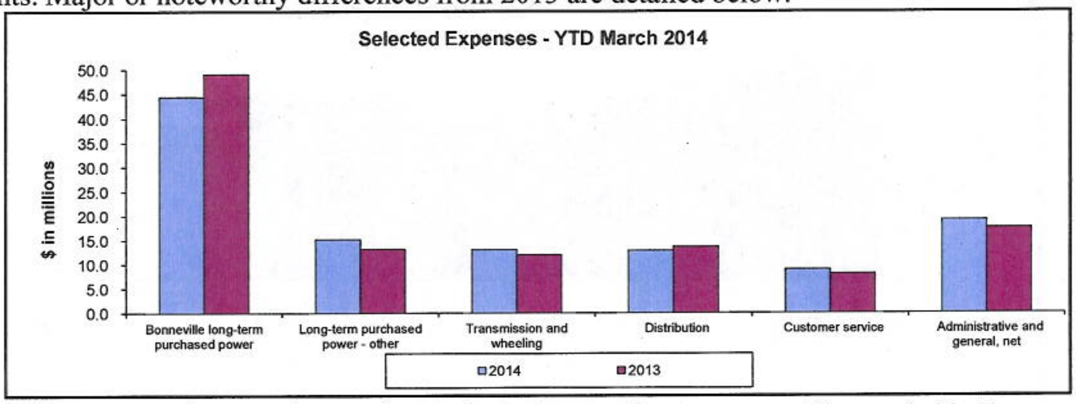
Year-to-date energy consumption is lower than 2013, partially due to warmer January temperatures. Year-to-date energy consumption is slightly lower than the 2014 Plan for Residential Customers partly due to warmer than normal weather. In total, year to-date energy consumption for non-residential customers is very close to plan. However, load from the boring machine for the Alaska Way Viaduct project has been significantly lower than planned, reducing YTD non-residential load by around 1.6%. This means that load from other non-residential customers is around 1.6% above plan, an encouraging sign. Overall year-to-date retail revenues are $10.7 million higher than in 2013 as a result of the increases to retail rates discussed above.



The actual average earned rate per MWh for residential and nonresidential customers is different from what was expected in the 2014 Plan due to slight differences in assumed versus actual patterns of consumption.

Expense Data for Selected Accounts

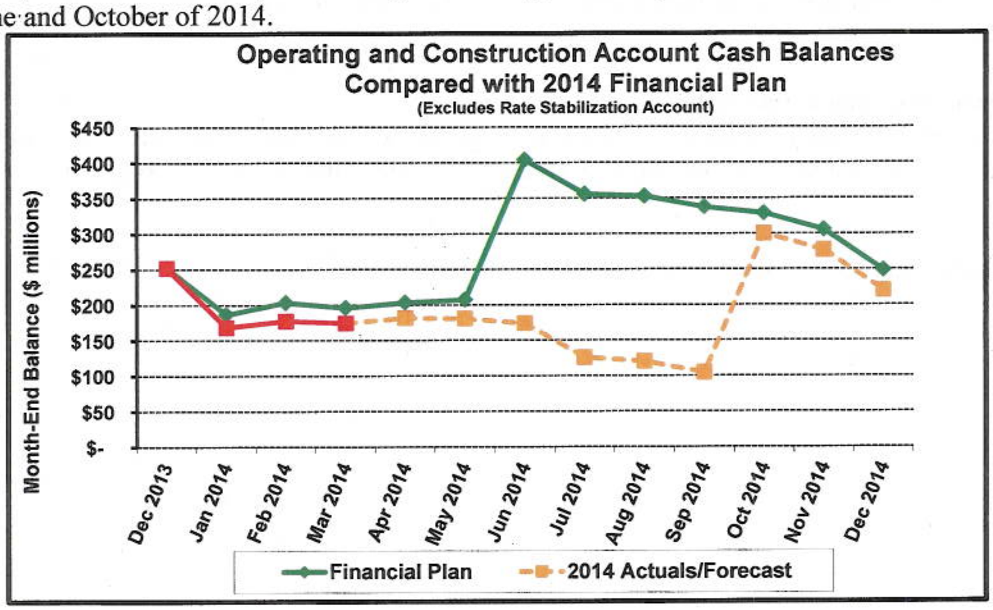
The following chart presents year-to-date data for major components of City Light's operating expenses excluding wholesale power transactions. These year-to-date expenses can fluctuate month to month compared to the previous year for a number of reasons including work scheduling and accounting adjustments. Major or noteworthy differences from 2013 are detailed below.



- Bonneville expenses year-to-date are lower due to larger slice true up credit recorded in January.
- Long-term purchased power – other expenses are higher due to higher fair valuation of exchanges.
- Transmission and wheeling expenses are slightly higher due to higher BPA wheeling charges.
- Distribution costs are slightly lower due to lower substation and street lighting expenses, which are offset by higher underground equipment expenses.
- Customer care expenses are slightly higher due to higher meter reading expenses.
- Administrative and general expenses are slightly higher due to higher general office salaries as the result of a lower vacancy rate as well as higher attorney fees and other professional services.

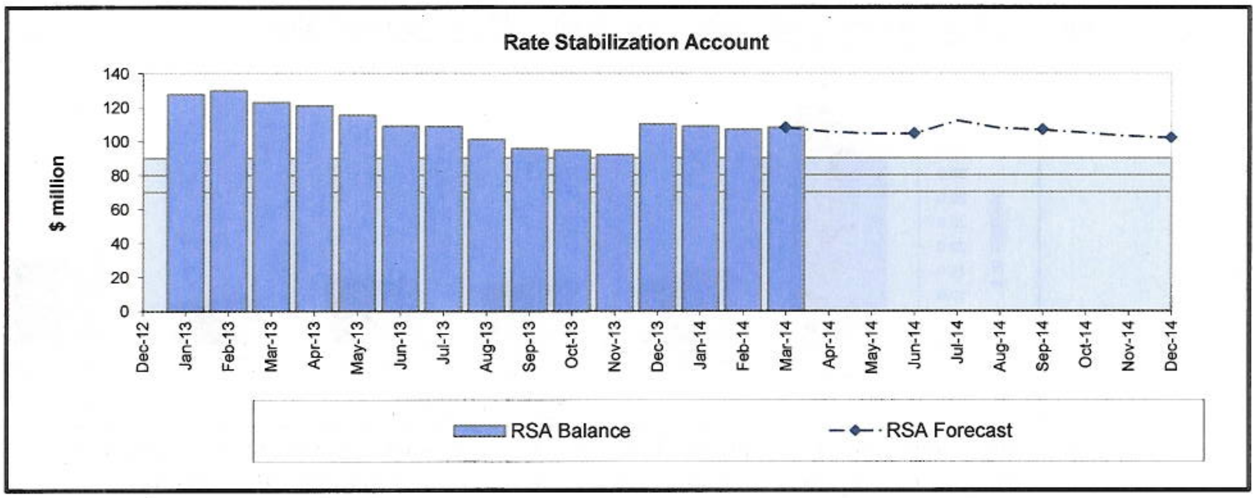
Cash Position

As of March 31, 2014, City Light's operating plus construction account cash balance was $174.5 million, which was $21.5 million lower than the balance projected in the 2014 Financial Plan largely due to higher capital expenses in the first quarter. The 2014 forecasted year-end balance of operating and construction account cash is $220.2 million, which is $28.4 million lower than the 2014 Plan. The bond issue for 2014 has been postponed until October, accounting for the large difference between Planned and forecasted cash between June and October of 2014.



RSA Position

The cash balance in the RSA was $107.9 million as of March, 2014. The year-end RSA balance is projected to be $101.9 million. A surcharge is currently not forecasted for 2014.



2014 Budget

As of March 2014, City Light is projecting that overall it will be within its budget authority through year-end 2014. The Department has spent 31% of the overall O&M budget (O&M budget includes Non-Power O&M expenses, Purchased Power, Taxes and Debt Service) through March. At this point in the year we would normally expect to have spent 25% of the annual budget, but carry forward encumbrances overstate the spending in the 1st Quarter. City Light's spending on the Capital program through March is approximately 90% of the 2014 year to date forecast. City Light anticipates that the accomplishment rate will be 94% by year-end.

Debt-to-Capitalization

As of March 31, 2014, City Light's debt-to-capitalization ratio was 60.2%, a decrease from 61.3% this time last year and a decrease from 61.8% reported at December 31, 2013. Based on the revised forecast, the 2014 year-end debt-to-capitalization ratio is now expected to be 60.8%, which is on track with the 2014 Plan.

Compliance with Risk Policies and Standards

Attached for your information is the City Light Risk Oversight Status Report as of April 2, 2014, which conveys City Light's compliance with risk policies and standards at that point in time.

Attachments

Line No.	Condensed Statements of Revenues, Expenses and Changes in Net Position	Year-to-date			Year Ending December 31, 2014		
1		[A]	[B]	[A - B]	[C]	[D]	[C - D]
2	**Unaudited**	Actuals	Actuals	Actuals to Actuals	2014 Revised	2014 Financial	
3	In millions	March 31, 2014	March 31, 2013	Variance	Forecast	Plan	Variance
4	**Operating Revenues**						
5	Retail power revenues	$ 205.0	$ 194.3	$ 10.7	$ 754.5	$ 753.9	$ 0.5
6	Short-term wholesale power revenues, net (lines 40 + 43)	24.8	23.3	1.5	96.2	105.2	(9.0)
7	Power-related revenues - other	8.3	7.1	1.2	44.3	44.8	(0.5)
8	Transfers from/(to) rate stabilization account	2.0	5.7	(3.7)	8.1	(2.7)	10.7
9	Other revenues	4.1	6.2	(2.1)	22.5	24.3	(1.8)
10	Total operating revenues	244.2	236.6	7.6	925.5	925.6	(0.0)
11	**Operating Expenses**						
12	Generation	6.7	5.3	1.4	42.5	43.4	(0.9)
13	Bonneville long-term purchased power	44.4	49.1	(4.7)	155.7	155.7	0.0
14	Long-term purchased power - other	15.2	13.2	2.0	63.5	65.2	(1.7)
15	Short-term wholesale power purchases	4.0	2.2	1.8	27.1	25.2	1.9
16	Power-related wholesale purchases - other	10.4	7.1	3.3	16.6	17.5	(0.9)
17	Other power costs	2.7	2.5	0.2	12.7	11.5	1.2
18	Transmission and wheeling	13.1	12.0	1.1	54.5	55.0	(0.6)
19	Distribution	12.9	13.7	(0.8)	63.2	64.7	(1.5)
20	Customer service	9.0	8.1	0.9	41.3	42.1	(0.8)
21	Conservation	5.2	4.4	0.8	23.9	23.9	(0.0)
22	Administrative and general, net	19.2	17.6	1.6	72.8	72.7	0.1
23	Taxes	23.8	22.3	1.5	86.4	86.3	0.1
24	Depreciation and amortization	25.1	26.1	(1.0)	106.6	108.0	(1.4)
25	Total operating expenses	191.7	183.6	8.1	766.6	771.1	(4.4)
26							
27	**Net Operating Income**	**52.5**	**53.0**	**(0.5)**	**158.9**	**154.5**	**4.4**
28							
29	**Other Deductions, Net**						
30	Investment Income	2.5	0.7	1.8	5.5	6.5	(1.0)
31	Other income (expense), net	2.3	1.3	1.0	6.7	5.8	0.9
32	Interest expense	(19.8)	(19.4)	(0.4)	(81.4)	(85.8)	4.4
33	Noncapital grants	(1.3)	-	(1.3)	2.2	4.0	(1.8)
34	Capital contributions	6.7	3.2	3.5	33.4	34.1	(0.6)
35	Capital grants	(0.1)	0.2	(0.3)	0.6	1.0	(0.5)
36	Total other deductions, net	(9.7)	(14.0)	4.3	(33.0)	(34.5)	1.5
37							
38	***Change in Net Position***	**$ 42.8**	**$ 39.0**	**$ 3.8**	**$ 125.9**	**$ 120.0**	**$ 5.9**
39	**Note A:**						
40	Short-term wholesale energy sales, gross	26.6	25.8	0.8	101.7	110.2	(8.5)
41	Short-term wholesale energy purchases	(4.0)	(2.2)	(1.8)	(27.1)	(25.2)	(1.9)
42	**Net ST wholesale sales before booked-out LT purchases**	**22.6**	**23.6**	**(1.0)**	**74.6**	**85.0**	**(10.4)**
43	Booked-out long term purchases	(1.8)	(2.5)	0.7	(5.5)	(5.0)	(0.5)
44	Net short-term wholesale energy sales	**20.8**	**21.1**	**(0.3)**	**69.1**	**80.0**	**(10.9)**
45	**Note B:**						
46	Power-related revenues, net (line 7 minus line 16)	(2.1)	0.0	(2.1)	27.7	27.4	0.3

Net Income Variance Analysis
March 2014

Variance Year-to-Date 2014 Compared to 2013 Actuals: $3.8 million or 10.0%

Major components ($ millions):

$39.0	Net Income YTD through March 31, 2013
$10.7	Higher retail revenues due to 5.6% rate increase effective January 1, 2014 and 1.2% BPA pass-through rate increase effective October 1, 2013
($3.7)	Lower transfers from rate stabilization account year-to-date due to lower net wholesale revenues than projected
$4.7	Lower BPA due to combination of higher slice true-up credit and lower block power
($1.4)	Higher generation due to higher maintenance of Gorge dam and other structures and equipment
($2.0)	Higher long term energy purchases due to increased market prices combined with lower book-outs.
($1.1)	Higher BPA wheeling and transmission
($1.6)	Higher administrative and general, net
($1.5)	Higher public utility and city occupation taxes due to higher rates
$1.8	Higher investment income due to gains in fair market value of non-cash investments
$3.5	Higher in-kind CIAC primarily for Mercer Street and Amazon projects
($5.6)	Other (net)
$42.8	Net Income YTD through March 31, 2014

Variance 2013 Revised Forecast Compared to Financial Plan: $5.9 million or 4.9%

Major components ($ millions):

$120.0	Net Income through December 31, 2014 - Financial Plan
($10.4)	Lower net surplus energy sales than planned
$10.7	Transfer from RSA to offset lower net surplus energy sales
$1.7	Lower long-term purchased power expenses
$4.4	Lower estimated interest expense
($2.9)	Lower noncapital and capital grants, and capital contributions
$2.4	Other (net)
$125.9	Net Income through December 31, 2014 - Revised Forecast

Seattle City Light
Risk Oversight Status Report
As of April 02, 2014

Summary

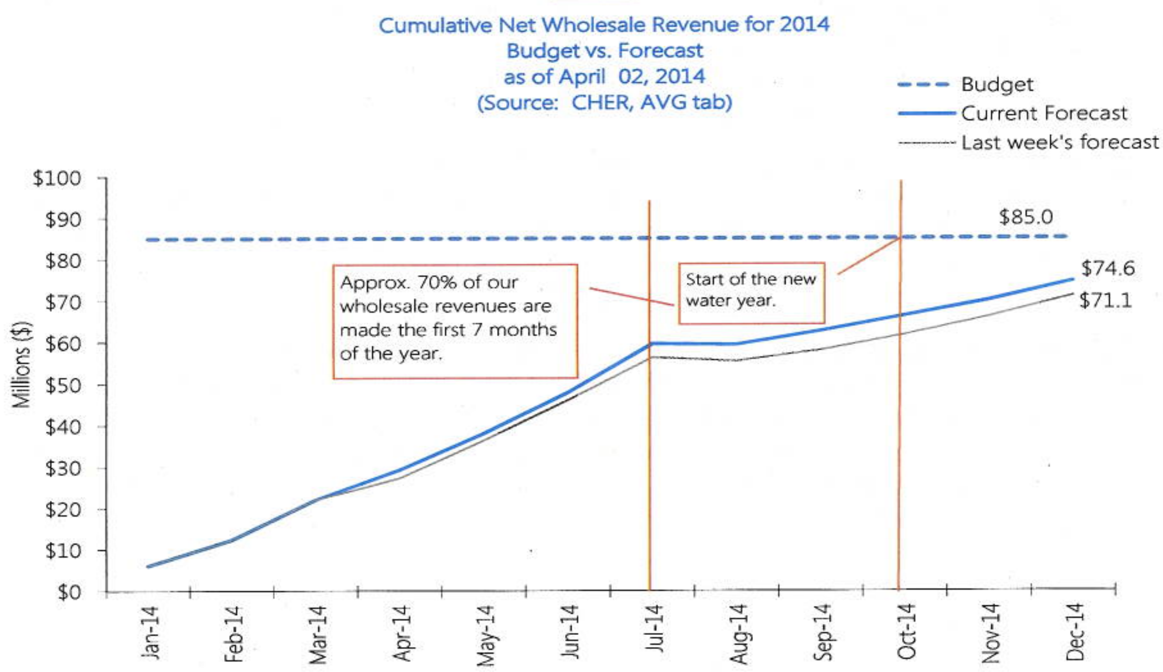
	5 Year Average	2014 Average	% of 5 Year Average
SCL Hydro Generation	1,083 MW	1,093 MW	101%
Market Prices (Peak Hours)	$32.05	$41.26	129%

SCL Hydro Generation: This shows the total average generation per hour for Seattle City Light's three major hydroelectric resources (Skagit, Boundary, and BPA Slice). For the 2014 calendar year this average includes actual generation for past months and forecasted MW for future months. The 5 year average value is comprised of actual generation for the years 2009-13. The percent of 5 year average shows the generation for the current year relative to the 5 year average.

Peak Market Prices: This shows the total average price per hour for peak hours at the nearest and the most active electricity trading hub (MID-C). For the 2014 calendar year this includes the average Dow Jones firm peak index daily prices for past months and the average of the monthly forward marks for the future months. The 5 year average is computed from the Dow Jones peak daily prices for the years 2009-13. The percent of 5 year average shows the market prices for the current year relative to the 5 year average.

Wholesale Revenue Variance: Chart 1 below compares the approved 2014 Net Wholesale Revenue (NWR) budget of $85MM with the latest NWR forecast of $74.6MM. The NWR forecast increased by $3.5MM from the previous forecast of $71.1MM. The 32 aMW increase in May to December generation boosted NWR by $4.4M. Forward prices were down in most months leading to a decrease of $2.5MM. The revised April estimate increased NWR by $1.6M.

Chart 1



Policy Compliance

Tail Risk Limit	Prompt Month & Within Month Limit	Forward Month's Resource Requirement Limit	Forward Sales Limit	Physical Options Limit
Compliant	Compliant	Compliant	Compliant	Compliant

Tail Risk: For the current calendar year, the Power Marketing Division (PMD) must conduct its hedging activity to maintain the Utility's position within established Risk Tolerance Band (RTB) of $8MM based on the calculated 5% Tail Risk metric. For the prompt year (the year immediately following the current calendar year), the established RTB is $10MM.
(Section 3.3.2 Prompt and Within the Month (WERM))

Prompt Month & Within Month Volumetric Limit: The Power Marketing Division (PMD) will maintain City Light's power portfolio position for any prompt month or any Balance of the Month period so that such position shall not exceed a 50 average megawatt deficit during such period. Such limit will be calculated as the net position of City Light's combined physical position adjusted for any physical options (daily or monthly) that City Light has purchased for such month. If this limit is exceeded, the Division will take immediate action to reduce the deficit to under 50 average megawatts.
(Section 3.3.1.1 Prompt and Within the Month (WERM))

Forward Month's Resource Requirement Limit: The Power Marketing Division (PMD) will immediately suspend any further forward sales for the future calendar quarter, within the next 24 months period, if the forecasted net combined system energy projected surplus for that quarter is less than zero, at 25th percentile. Further, the PMD will take immediate action to purchase if the forecasted net combined system energy position for a future calendar quarter, in the next full 24 months period, is less than zero at 50th percentile. Such corrective action shall reduce the said deficit to zero at 50th percentile for that quarter.
(Section 3.3.1.2 Forward Month's Resource Requirement (WERM))

Forward Sales Limit: The Power Marketing Division (PMD) will not sell forward a quantity of more than 1,750,000 net megawatt hours over a rolling four full calendar quarters. Such limit will be calculated as the net position of City Light's combined physical position adjusted for any physical options (daily or monthly) that City Light has purchased for such period.
(Section 3.3.1.3 Forward Month's Resource Requirement (WERM))

Physical Options Volumetric Limits: As the utility introduces physical puts and calls into its portfolio it will do so in a conservative manner. This will allow for the refinement of procedures and controls that these transactions will impact. The Power Marketing Division (PMD) will limit its option volumetric position so that it will not transact more than the lesser of 300 average megawatts in physical puts and calls (including daily and monthly options) or spend more than $2MM for option premiums for any calendar year.
(Section 3.3.1.4 Forward Month's Resource Requirement (WERM))

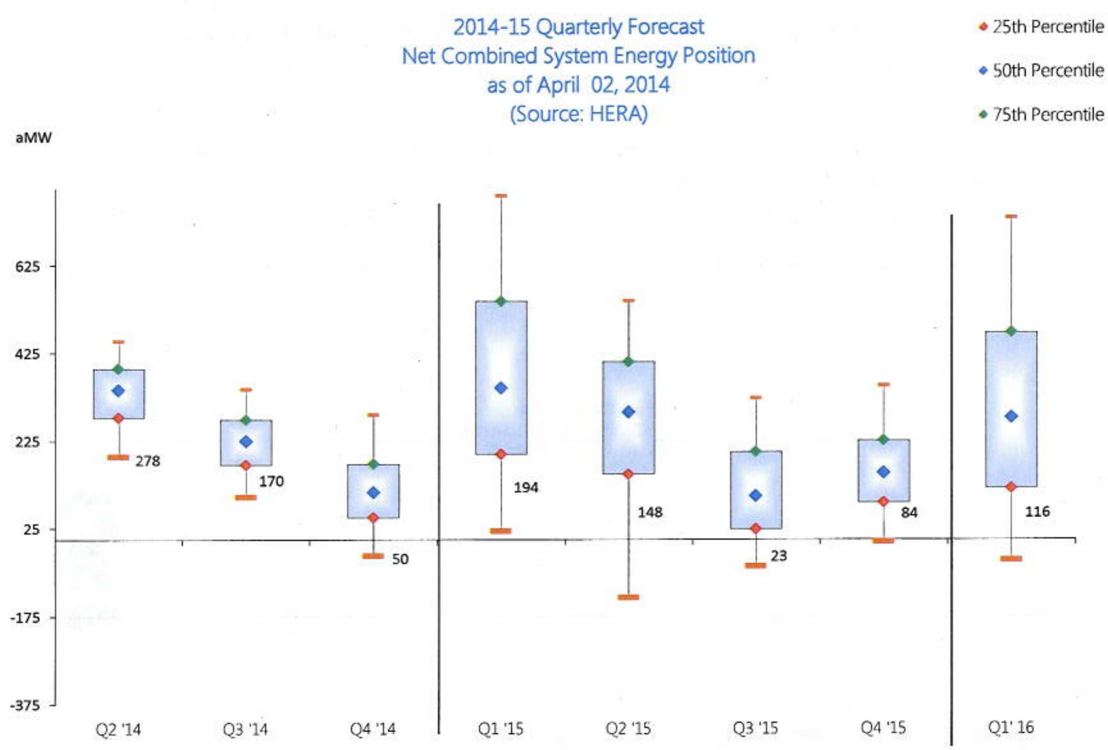
Hedging Plan & Position Status

Hedge Plan 2014, Phase 2 was last proposed and approved by the Risk Oversight Council on March 25, 2014.

City Light uses the most recent load and hydro forecasts including relevant historical data to run a Historical simulation based model that produces a forecast of more than two thousand portfolio resource scenarios. The output of this model along with the current forward positions provides energy information needed to determine SCL's position. Shown below in Chart 2 are positions as of the model run date for the different resource scenarios.

Chart 2 shows the Net Combined System Energy Position for the next 8 quarters to match City Light's short-term transacting authority. The blue boxes represent the expected net energy position from 25th to 75th percentile. The dark blue diamonds inside the boxes represent the 50th percentile. If the blue diamond falls below zero, City Light must purchase adequate energy to cover that deficit.

Chart 2



5% Tail Risk Metric, 2014

In October 2007, City Light implemented a risk metric named the "5% Tail Risk". It is calculated as the average of the worst-case scenarios for City Light's cash from operations for the calendar year. Cash from operations is a bottom-line financial metric defined as the cash available to finance capital projects. There are numerous drivers of cash from operations such as retail revenue, investment income, debt service, and O&M expenses; however wholesale energy revenue is typically the primary driver of uncertainty in this metric.

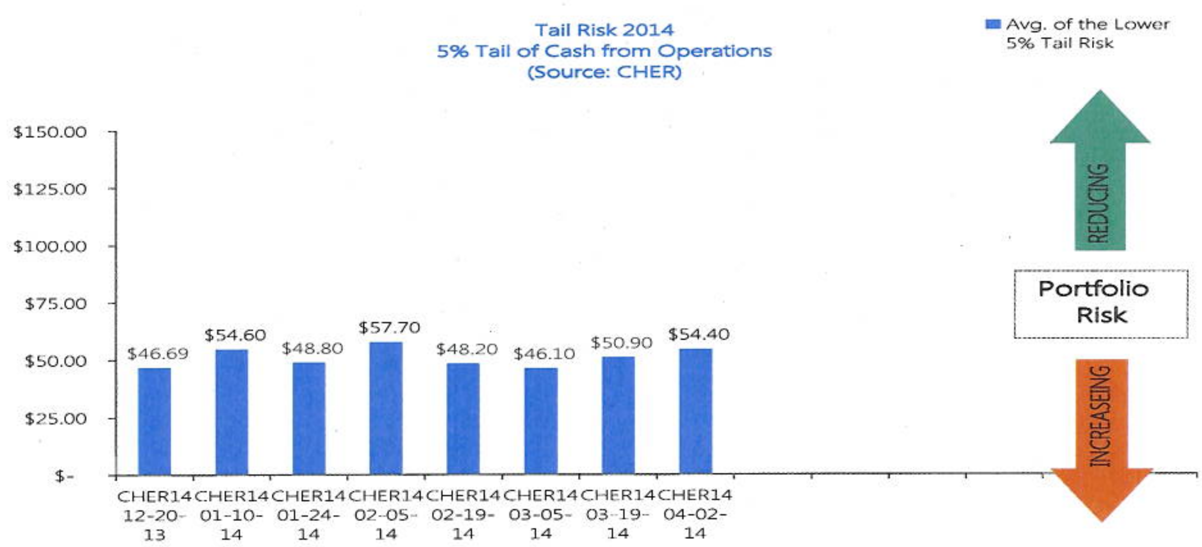
In 2011, the Rate Stabilization Account (RSA) became operational. The RSA is a cash reserve that is used to buffer the Utility from uncertainty in wholesale energy revenue. If the RSA becomes depleted, it is replenished via retail rate surcharges. The RSA significantly mitigates City Light's financial (i.e. cash from operations) risk associated with wholesale energy revenue; however retail customers are exposed in part to the wholesale energy revenue risk via RSA surcharges of up to 4.5%. To appropriately encourage management of risk borne by both City Light and retail customers, the cash from operations amount used in the 5% Tail Risk calculation excludes any effects of the RSA.

The 5% Tail Risk metric is used as a risk control measure in City Light's management of surplus hydro resources. It is used in concert with additional volumetric limits, as well as expert knowledge and analysis of western wholesale energy markets, river flow data, and generation unit outages, to inform power management decisions.

Every week, portfolio models are updated with the most current information and the 5% Tail Risk is recalculated for both the current portfolio (forecast position plus purchases less sales) and planned portfolio (current portfolio plus remainder of existing hedge plan). This metric shows the utility's portfolio position as of that week.

Chart 3 (below) illustrates the 5% Tail Risk metric values for the calendar year 2014. The current projection of a worse case of Cash from Operations is $54.40MM.

Chart 3



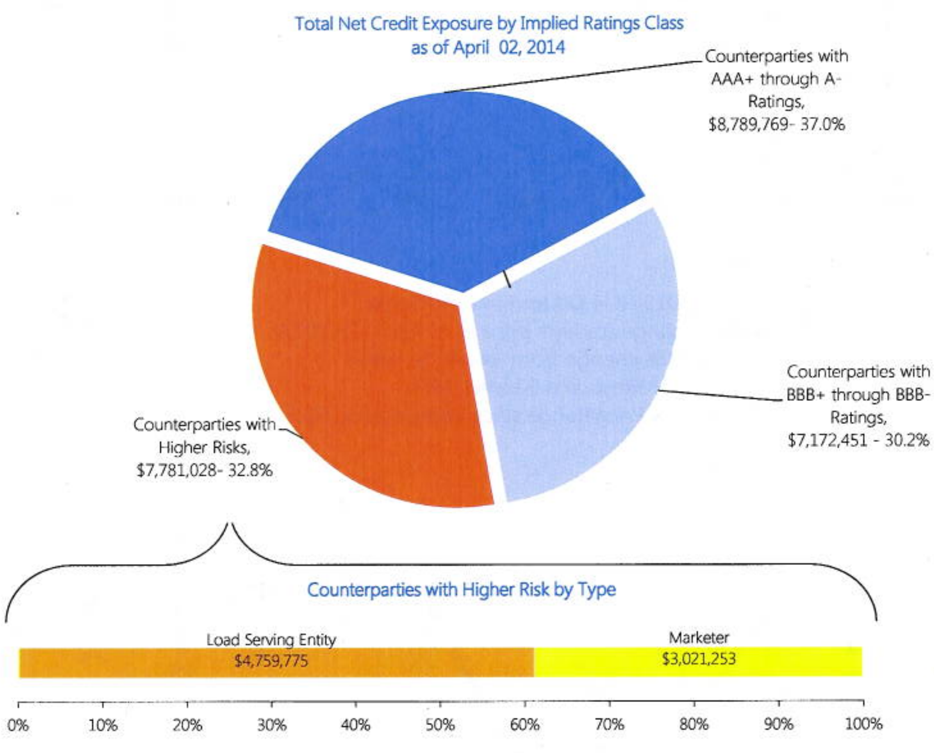
Credit

City Light actively manages its wholesale counterparty credit risk by:

- I. setting credit limits for each counterparty that are derived from a credit limit framework, credit scoring model and analysis;
- II. securing credit enhancements when necessary;
- III. monitoring national and global news including news related to industry and specific to counterparties;
- IV. daily monitoring of counterparty credit exposures.

Risk Management Division uses industry standard tools to proactively measure changes in counterparty creditworthiness. Implied credit ratings are utilized in conjunction with standard ratings provided by external agencies. The concept of risk tolerance extends to counterparties that are considered 'Higher Risk' with equivalent Moody's and S&P implied ratings of 'BB+' or less. Counterparties with such implied ratings are placed into the 'Higher Risk Credit Portfolio' for close monitoring in order to reduce the risk of delayed or non-payment while utilizing wholesale power, transmissions and related ancillary revenue opportunities. City Light strives to keep its "Higher Risk" counterparty exposures at less than 25% of the total exposure at any given time. However, this percentage can vary based on the time of the month when the report is produced.

Chart 4

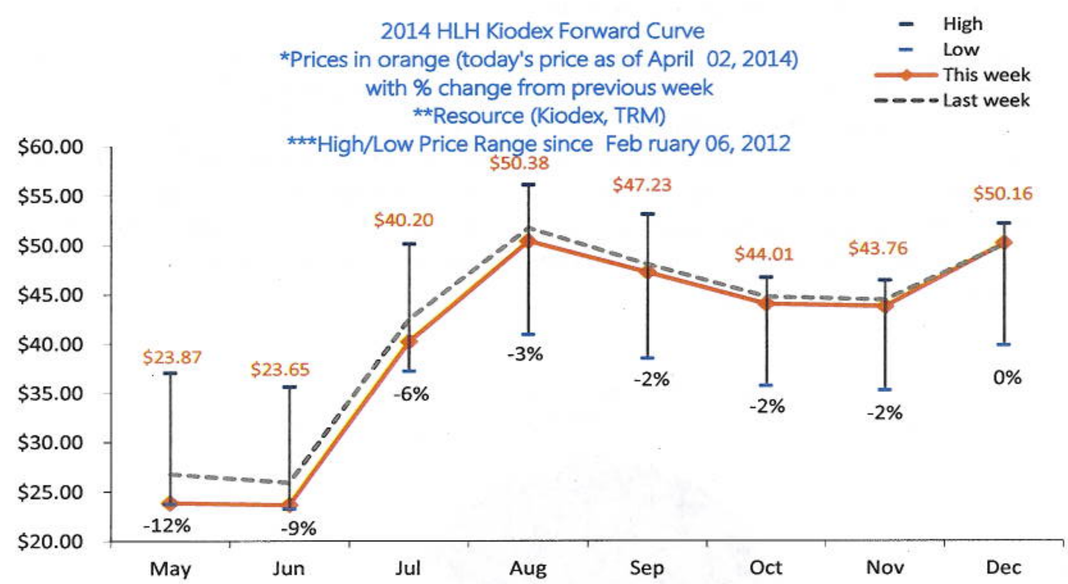


Credit Notes: Risk Oversight is in the process of negotiating letters of credit with two of our counterparties. Risk anticipates such letters of credit being in place within the next week.

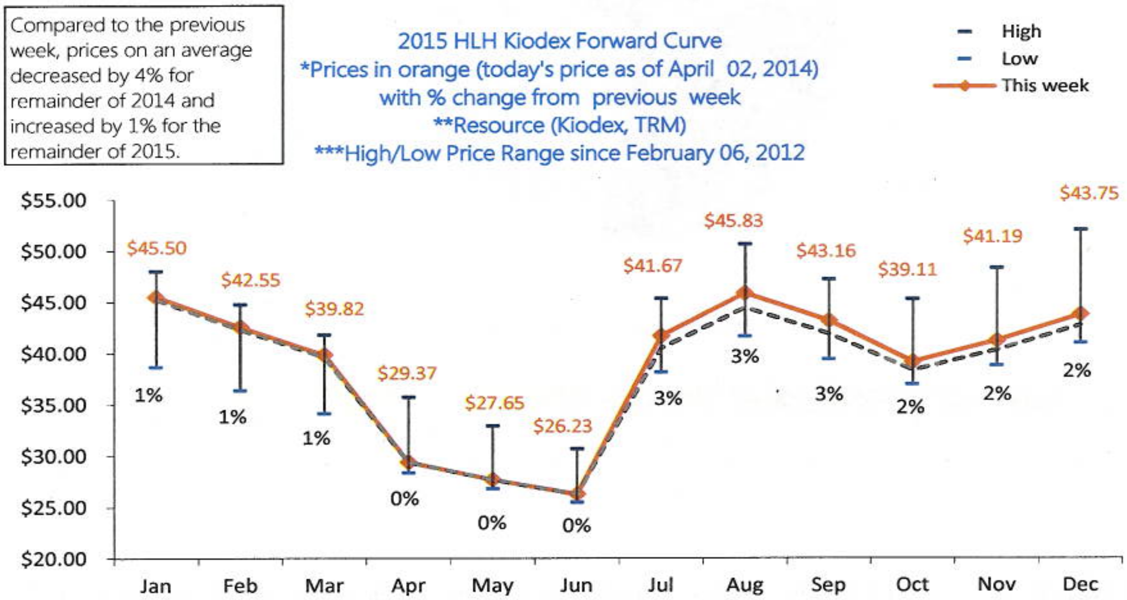
Price

To ensure that prices are independently developed, City Light's official forward price curve is prepared by KIODEX and used for internal analysis, valuation and modeling tasks. Chart 5 shows the forward price range (Mid-C HLH only) for calendar year 2014 & 2015.

Chart 5



Compared to the previous week, prices on an average decreased by 4% for remainder of 2014 and increased by 1% for the remainder of 2015.



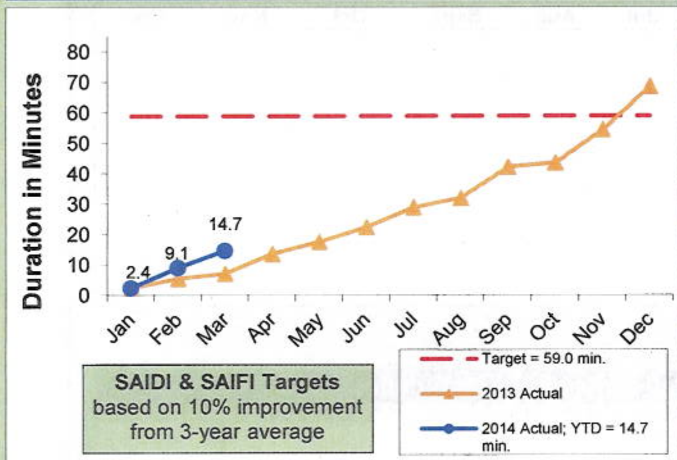
Seattle City Light

Performance Metrics Report

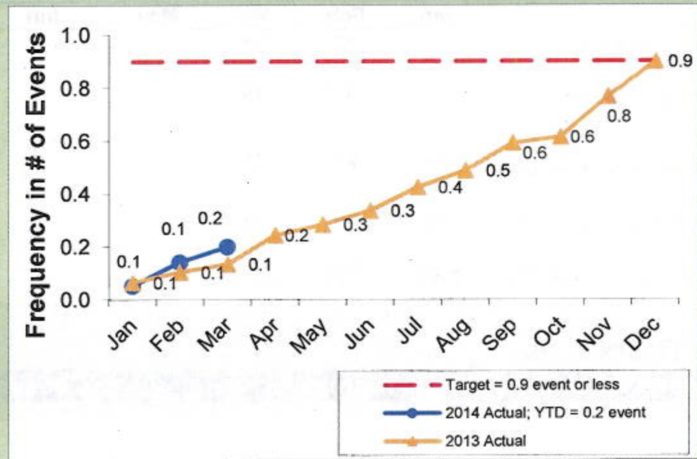
March 2014

Distribution Operations:

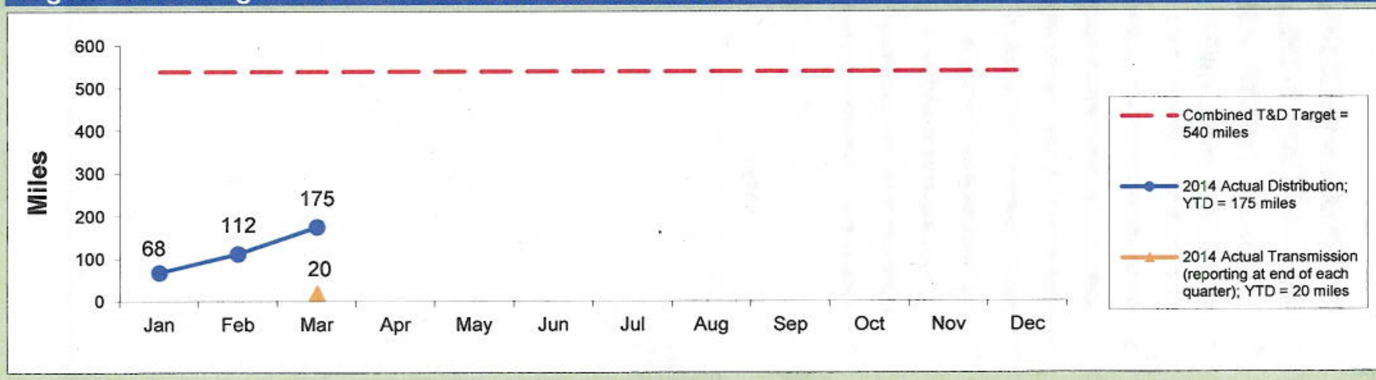
SAIDI - Cumulative



SAIFI - Cumulative

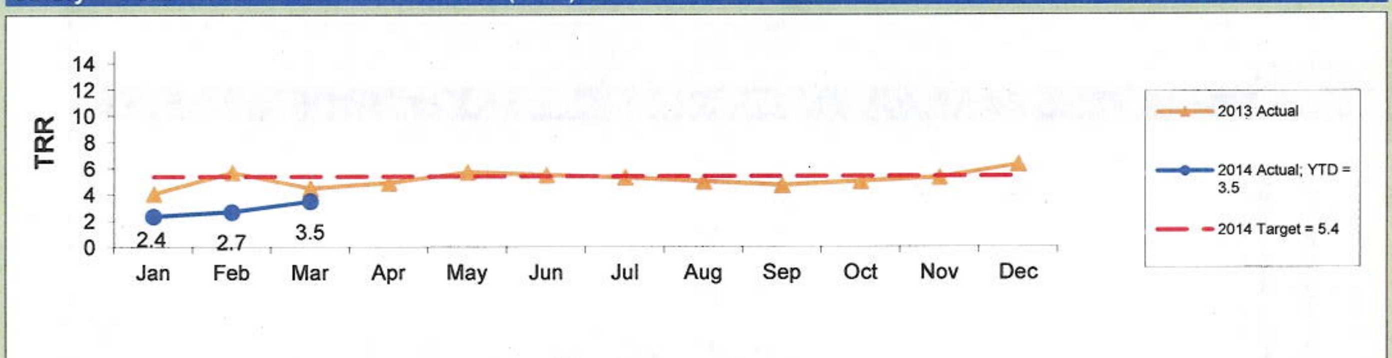


Vegetation Management - Cumulative Miles of Trees Trimmed

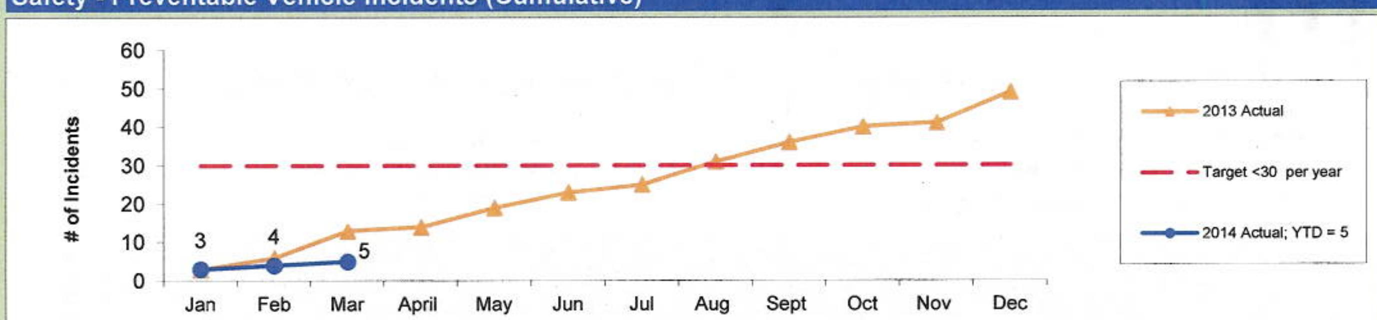


Human Resources:

Safety - Total Recordable Incident Rate (TRR) - Cumulative



Safety - Preventable Vehicle Incidents (Cumulative)



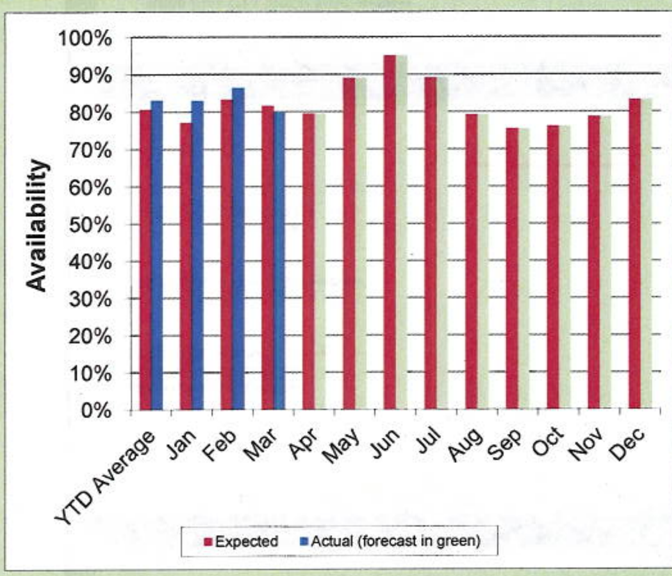
Human Resources:

Hiring Statistics YTD

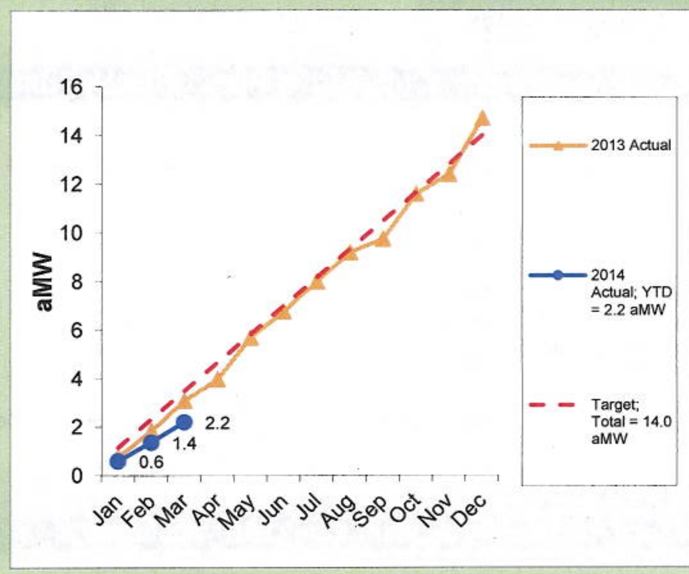
	Jan	Feb	Mar	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Cumulative # of New Hires	9	26	51								
Cumulative # of Promotions	5	9	18								
Avg. # Hiring Days (Goal=45 days)	19	26	18								
Cumulative # of Attrition	12	22	34								
Vacancy Rate Mo. End (Goal=4%)	7.6%	7.0%	6.7%								

Power Resources:

Generator Availability-All Units (Actuals %)

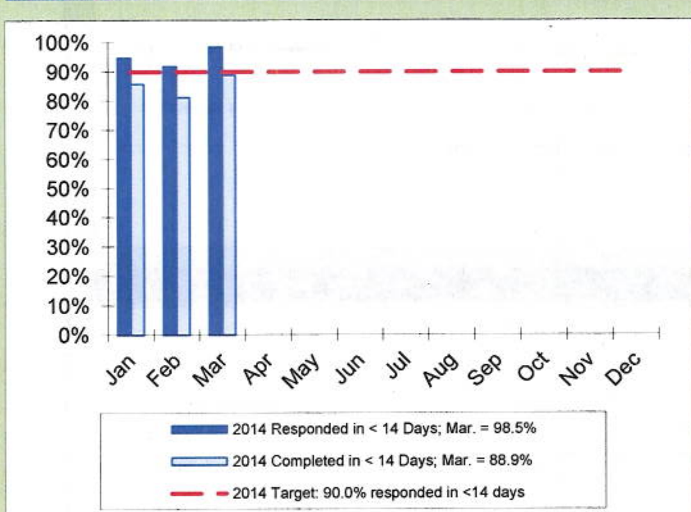


Conservation Savings (Cumulative)



Customer Care:

Streetlight Repairs



Service Connections