Seattle City Light

MEMORANDUM

JUNE 26, 2015

TO
Ed Murray, Mayor
Seattle City Council

FROM
James L. Baggs, General Manager and CEO

SUBJECT
Financial Update – May 2015

This memo provides an analysis of Seattle City Light's financial condition and operating results through May 31, 2015. The attached Income Statement Analysis, which is summarized in the table below, provides a summary of how City Light performed year-to-date in 2015 compared to the same period the previous year and the 2015 Financial Plan. In addition, we have provided a forecast of City Light's financial results through December 2015 compared to the 2015 Financial Plan. The 2015 Financial Plan is based on the revenue and expense projections included in the adopted budget for 2015.

FINANCIAL HIGHLIGHTS
May 31, 2015

$ in millions	YTD Actuals 2015	YTD Actuals 2014	YTD Plan	Full Year 2015 Forecast	Full Year 2015 Plan	Forecast Change from Prior
Retail Power Revenues[1]	$ 315.8	$ 322.9	$ 335.6	$ 756.0	$ 775.8	$ (3.8)
Wholesale Energy Sales (net)[2]	$ 42.9	$ 43.0	$ 34.7	$ 46.9	$ 65.0	$ (5.9)
Power O&M (net)	$ (115.0)	$ (118.2)	$ (123.1)	$ (266.8)	$ (271.9)	$ 1.1
Non Power O&M (net)	$ (83.9)	$ (84.9)	$ (88.2)	$ (219.1)	$ (223.0)	$ (0.2)
RSA Transfers (net)[3]	$ (10.5)	$ 1.6	$ (0.5)	$ 15.0	$ (1.3)	$ 5.4
Taxes, Depeciation & Other	$ (96.7)	$ (99.5)	$ (98.7)	$ (202.4)	$ (214.8)	$ 0.9
Net Income	**$ 52.5**	**$ 64.8**	**$ 59.9**	**$ 129.7**	**$ 129.8**	**$ (2.6)**
Operating Cash	$ 105.6	$ 166.2	$ 102.2	$ 153.4	$ 179.4	$ (6.2)
Construction Account - Restricted	$ 0.4	$ 2.4	$ -	$ 53.4	$ 16.2	$ 0.3
Rate Stabilization Account	$ 124.9	$ 108.3	$ 114.8	$ 99.3	$ 115.6	$ (5.4)
Bond Reserve	$ 58.1	$ 47.0	$ 57.9	$ 74.1	$ 79.9	$ 0.1
Other Restricted Assets	$ 27.2	$ 20.3	$ 27.0	$ 15.9	$ 16.4	$ 0.0
Total Cash	**$ 316.2**	**$ 344.3**	**$ 301.8**	**$ 396.1**	**$ 407.5**	**$ (11.2)**
Debt Coverage Ratio	n/a	n/a	n/a	1.75	1.80	-0.01
Debt to Capitalization Ratio	57.9%	59.5%	57.7%	59.8%	59.6%	0.0%

(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.

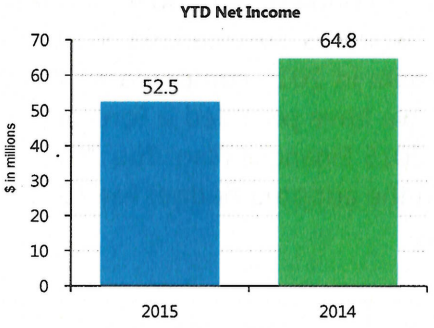
(3) Transfers from the RSA less transfers to the RSA.

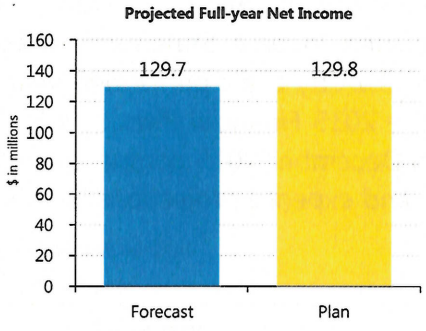
YEAR-TO-DATE NET INCOME, RELATIVE TO 2014

As indicated in the table on the previous page and in the charts below, net income for the period ending May 31, 2015 was $52.5 million, which is $12.3 million or 19.0% unfavorable compared to the same time period in 2014. The unfavorable variance was driven by a decline in retail power revenues due primarily to unseasonably warm weather in early 2015, partially offset by the 4.2% system average rate increase effective January 1, 2015 and a lower RSA Baseline in 2015 vs. 2014 ($65M vs $85M), which led to less NWR revenue being recognized after RSA transfers.

PROJECTED YEAR-END NET INCOME, RELATIVE TO PLAN

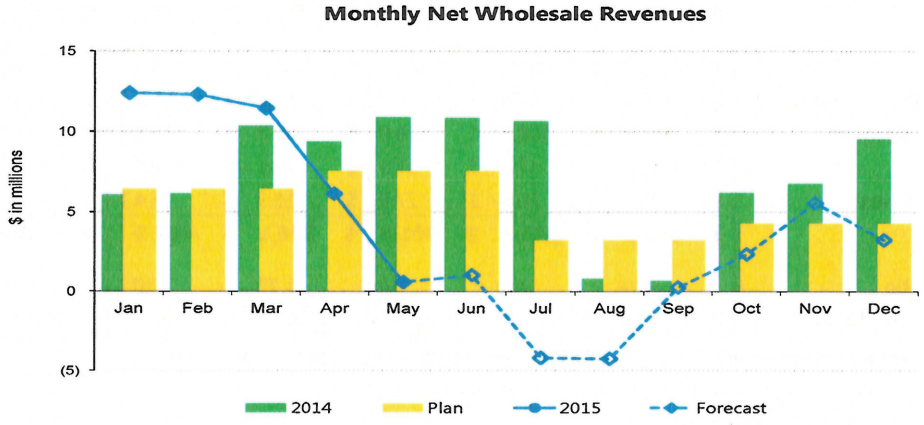
Projected net income for 2015 is $129.7 million, which is $0.1 million or 0.1% unfavorable compared to the 2015 Financial Plan of $129.8 million. The unfavorable full-year retail revenue power variance (net of tax) was offset by lower than planned non-power O&M costs driven by a combination of lower bad debt expenses, a higher capital loading rate and a higher vacancy rate; higher than planned CIAC due to expedited work schedules on network additions and faster growth in medium general service connections; and lower than planned tax expense due to a $3.0 million renewable energy credit expected to be received in December.





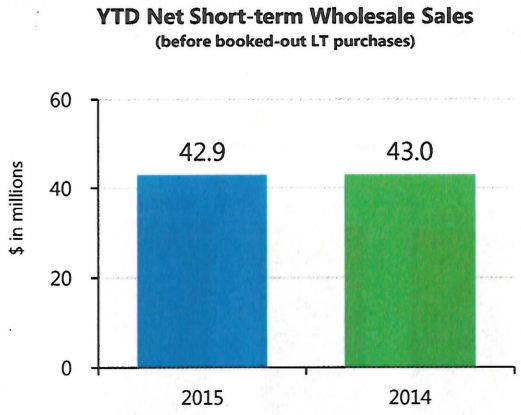
NET SHORT-TERM WHOLESALE ENERGY

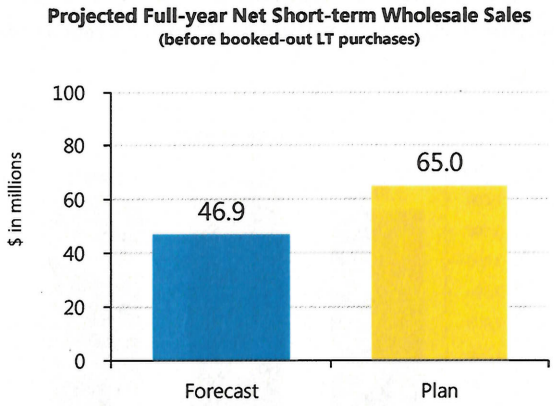
May net wholesale revenues were $0.6 million, down $10.3 million or 95% from the prior year. The warmer than normal weather, which accelerated snow melt in the first quarter, pulled volume forward from future months.

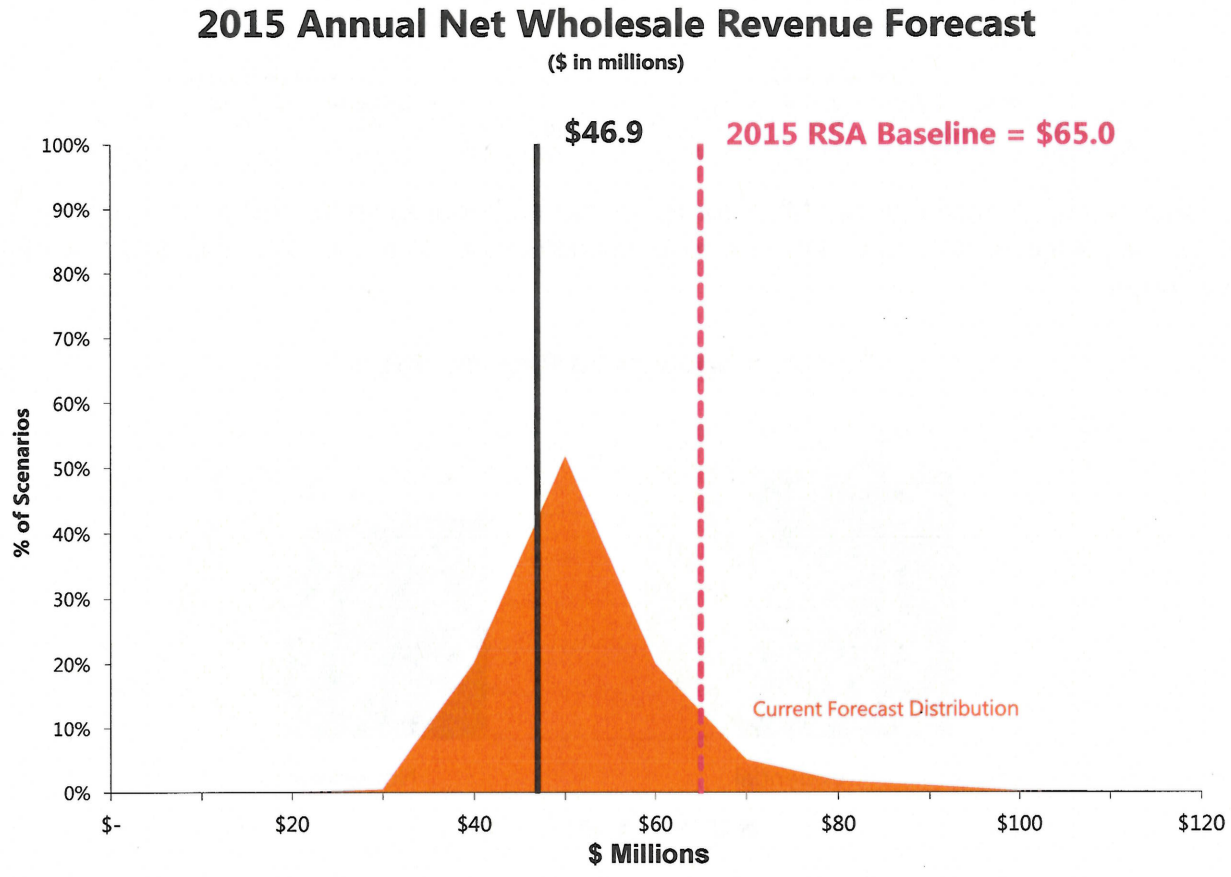


May 2015 year-to-date net wholesale revenues of $42.9 million decreased $0.1 million or 0.2% from 2014. The impact of the 19.1% increase in volume resulting from the warmer weather was offset by a decline in average sales price of 22.6%.

The current estimate for full-year 2015 net wholesale revenue is $46.9 million, which is $18.1 million or 27.8% lower than the 2015 RSA Baseline of $65.0 million. The projections for 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.



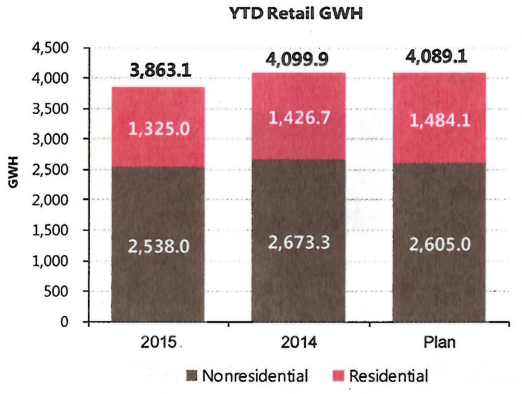




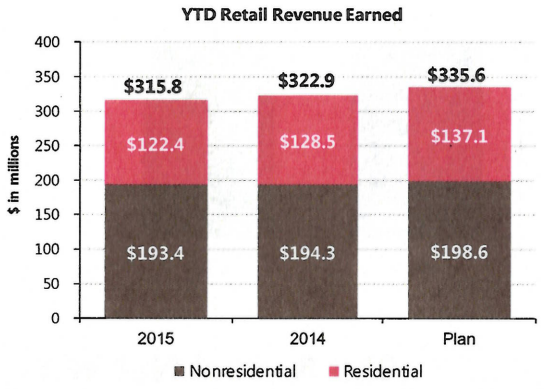
RETAIL POWER REVENUES

Year-to-date total load was lower than planned by 195 GWh, or 4.8%. Excluding the impact of the record warm weather in early 2015 (less heating load), total load variance to Plan would have been unfavorable by only 63 GWh, or 1.5%. The weather similarly impacted year-to-date retail revenue, which was lower than planned by $19.8 million, or 5.9%.

Year-to-date total load was lower compared to the prior year by 205 GWh, or 5.0%. This variance was also driven by the unseasonably warm weather in early 2015. Year-to-date retail revenue was $7.1 million or 2.2% lower compared to the prior year with the unfavorable weather impact being partially offset by the 4.2% system average rate increase effective January 1, 2015.

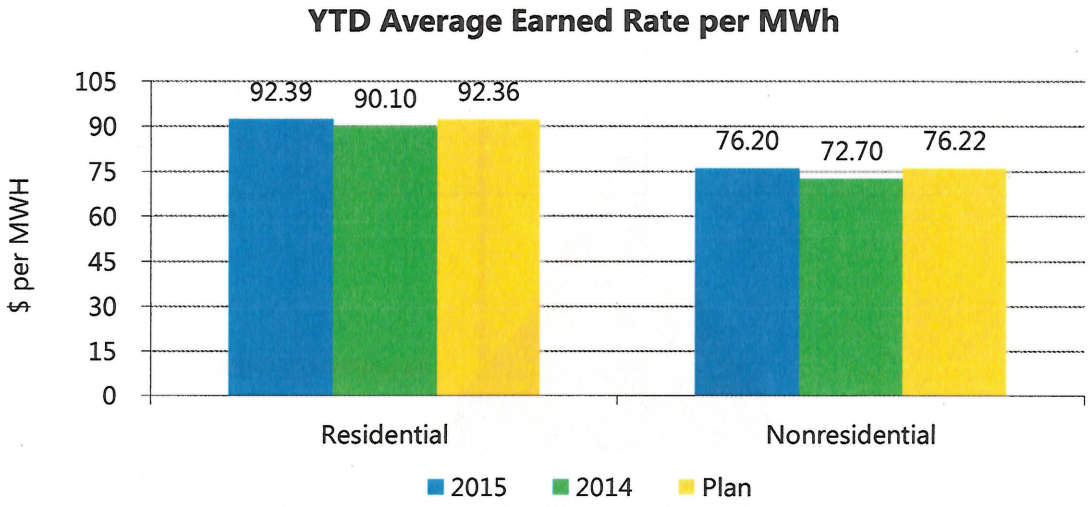


	YTD Retail GWH		
	Nonresidential	Residential	Total
2015 vs. 2014	-5.1%	-7.1%	-5.8%
2015 vs. Plan	-2.6%	-10.7%	-5.5%



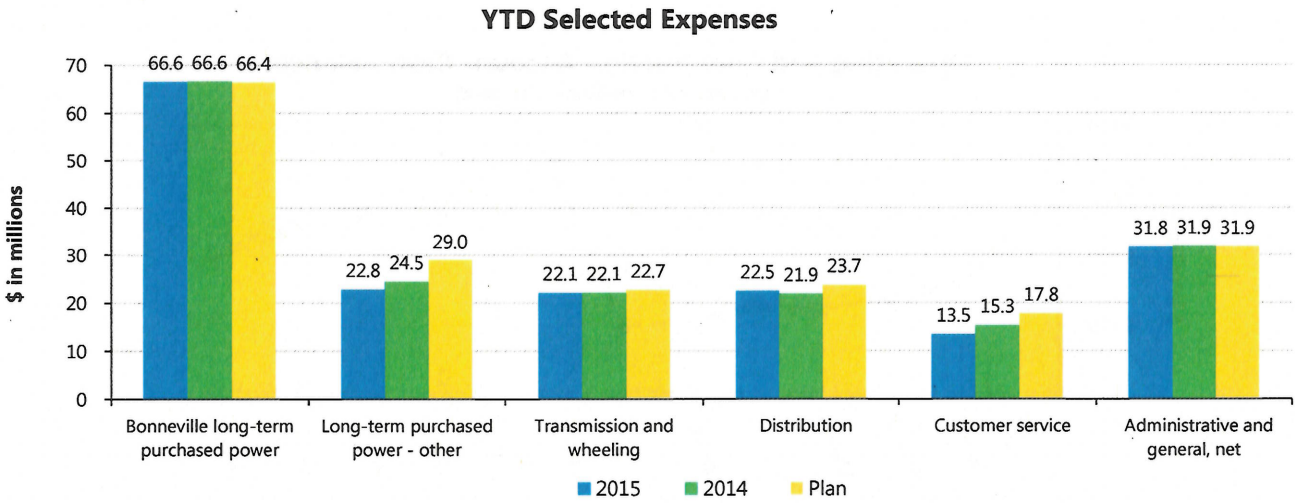
	YTD Retail Revenue		
	Nonresidential	Residential	Total
2015 vs. 2014	-0.5%	-4.8%	-2.2%
2015 vs. Plan	-2.6%	-10.7%	-5.9%

The actual average earned rate per MWh for residential and nonresidential customers is different from what was expected in the 2015 Plan due to slight differences in assumed versus actual patterns of consumption.



DATA FOR SELECTED ACCOUNTS

The following chart presents year-to-date 2015 data for major components of City Light's operating expenses excluding wholesale power transactions. These 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 2014 are detailed below.



- Bonneville expenses: The flat year-over-year variance was driven by a $1.3 million increase in the Slice true-up credit recorded in January, mostly offset by an increase of $1.2 million in Block load shaping.

- Long-term purchased power: The $1.7 million favorable year-over-year variance was due primarily to lower Stateline Wind generation as well as lower fair value recording of energy exchanges.

- Transmission and wheeling expenses: The flat year-over-year variance is due primarily to a WECC special statutory assessment implemented in late 2014 to cover a shortfall in the Peak Reliability budget due to non-payment by two Canadian entities. The variance was mostly offset by lower maintenance expenses.

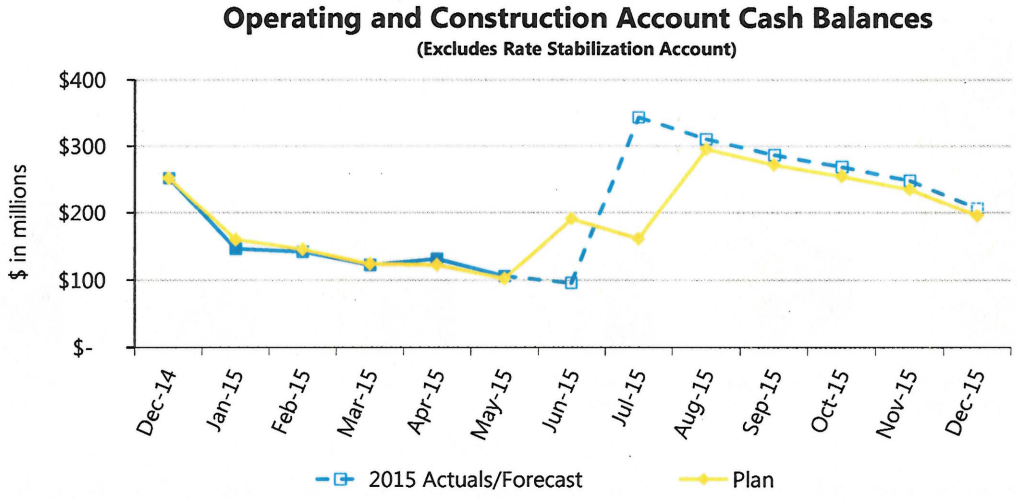
- Distribution costs: The $0.6 million unfavorable year-over-year variance is due to an increase in maintenance of the Geographic Information System (GIS) database.

- Customer service expenses: The $1.8 million favorable year-over-year variance resulted from a decline in billing/collecting, customer contracts/orders, bad debt and customer assistance expenses.

- Administrative and general expenses: The $0.1 million favorable year-over-year variance was due to an increase in the overhead rate applied to capital projects effective July 2014 as well as lower attorney and other professional fees. The favorable impact was mostly offset by an increase in administrative, general and engineering salaries due to lower vacancy rates.

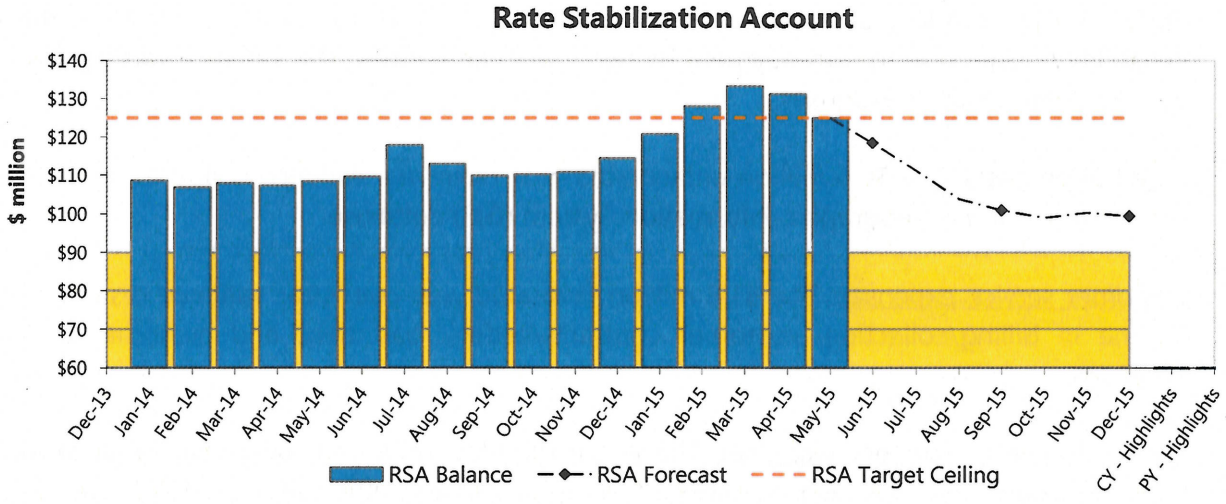
CASH POSITION

As of May 31, 2015, City Light's operating plus construction account cash balance was $106.0 million, which is $3.8 million or 3.7% higher than the 2015 Financial Plan of $102.2 million. The 2015 forecasted year-end balance of operating and construction account cash is $206.8 million, which is $11.2 million or 5.7% above the 2015 Financial Plan of $195.6 million.



RSA POSITION

The cash balance in the rate stabilization account was $124.9 million as of May 31, 2015, which is $0.1 million under the $125 million RSA target ceiling. The balance is expected to remain below the RSA target ceiling for the remainder of 2015. Neither a refund nor a surcharge is currently forecasted for 2015.



2015 BUDGET

As of May 2015, City Light is projecting that overall it will be within its budget authority through year-end 2015. The Department has spent 45% of the overall O&M budget (O&M budget includes Non-Power O&M expenses, Purchased Power, Taxes and Debt Service) through May. At this point in the year we would normally expect to have spent 42% of the annual budget, but carry forward encumbrances overstate the spending in the 1st Quarter. City Light's spending on the Capital program through May is approximately 80% of the 2015 year to date forecast. City Light anticipates that the accomplishment rate will be 88% by year-end.

DEBT-TO-CAPITALIZATION

As of May 31, 2015, City Light's debt-to-capitalization ratio was 57.9%, a decrease from 59.5% reported this time last year and from 59.8% reported at December 31, 2014. Based on the revised forecast, the 2015 year-end debt-to-capitalization ratio is now expected to be 59.8%, which is slightly higher than the 2015 Plan of 59.6%.

COMPLIANCE

Attached for your information is the City Light Risk Oversight Status Report as of June 10, 2015, which conveys City Light's compliance with risk policies and standards at that point in time.

PERFORMANCE METRICS

In addition to the financial information included above, we have provided a report on performance metrics for Distribution Operations, Vegetation Management, Safety and Human Resources, Power Resources and Customer Care. The updated Performance Metrics Report for May 31, 2015, with 2014 data included for comparison, is attached.

Attachments

cc: Kate Joncas
Hyeok Kim
Tony Kilduff
Ben Noble
Saroja Reddy
Brian Surratt
Greg Shiring
Michael Van Dyck

Net Income Variance Analysis
May 2015

Variance Year-to-Date 2015 Compared to 2014 Actuals: -$12.3 million or -19.0%

Major components ($ in millions):

$64.8	Net Income YTD through May 31, 2014
($12.1)	Higher transfers to RSA year-to-date due to wholesale revenues greater than budget y-t-d, due to earlier snow melt and rain caused by warmer temperatures January through May y-t-d
($7.1)	Lower retail power revenues due to warmer weather y-t-d compared to prior year, despite 4.2% comprehensive rate increase effective January 1, 2015
$1.7	Lower long-term purchased power - other, due primarily to lower Stateline wind generation
$1.8	Lower customer service expenses
$2.4	Higher capital contributions
($2.4)	Higher depreciation and amortization
$1.9	Lower interest expense
$1.2	Higher capital and noncapital grants
$0.3	Other (net)
$52.5	Net Income YTD through May 31, 2015

Variance 2015 Revised Forecast Compared to Financial Plan: $0.2 million or 0.15%

Major components ($ in millions):

$129.8	Net Income through December 31, 2015 - Financial Plan
($19.8)	Lower retail revenues than plan
($18.1)	Lower net wholesale energy sales
$16.3	Higher transfers from RSA
($1.4)	Lower other power-related revenues, net
$4.6	Higher capital contributions
$1.4	Higher investment income
$4.3	Lower customer service expenses
$3.0	Lower generation expenses
$2.8	Lower interest expense
$5.2	Lower taxes due to lower retail revenues and estimated conservation incentive credits of $3.0 million projected for December 2015
$1.6	Other (net)
$129.7	Net Income YTD through December 31, 2015 - Revised Forecast

Line No.	Condensed Statements of Revenues, Expenses and Changes in Net Position	Year-to-date			Year Ending December 31, 2015		
1		[A] Actuals	[B] Actuals	[A - B] Actuals to Actuals Variance	[C] 2015 Revised Forecast	[D] 2015 Financial Plan	[C - D] Variance
2	Unaudited						
3	In millions	May 31, 2015	May 31, 2014				
4	**Operating Revenues**						
5	Retail power revenues	$ 315.8	$ 322.9	$ (7.1)	$ 756.0	$ 775.8	$ (19.8)
6	Short-term wholesale power revenues, net (lines 40 + 43)	45.3	43.9	1.4	62.0	$ 83.5	(21.6)
7	Power-related revenues - other	7.3	13.1	(5.8)	33.1	$ 42.1	(9.0)
8	Transfers from/(to) rate stabilization account	(10.5)	1.6	(12.1)	15.0	$ (1.3)	16.3
9	Other revenues	8.4	7.6	0.8	21.6	$ 25.7	(4.1)
10	Total operating revenues	366.3	389.1	(22.8)	887.7	926.0	(38.3)
11	**Operating Expenses**						
12	Generation	13.8	14.1	(0.3)	36.9	39.9	(3.0)
13	Bonneville long-term purchased power	66.6	66.6	-	155.3	155.2	0.1
14	Long-term purchased power - other	22.8	24.5	(1.7)	62.6	67.8	(5.3)
15	Short-term wholesale power purchases	4.6	4.3	0.3	20.2	23.5	(3.4)
16	Power-related wholesale purchases - other	3.7	9.7	(6.0)	9.1	16.7	(7.7)
17	Other power costs	4.9	5.0	(0.1)	14.4	15.3	(0.9)
18	Transmission and wheeling	22.1	22.1	-	53.4	54.0	(0.6)
19	Distribution	22.5	21.9	0.6	61.4	62.6	(1.3)
20	Customer service	13.5	15.3	(1.8)	39.2	43.5	(4.3)
21	Conservation	10.8	9.3	1.5	27.9	27.2	0.6
22	Administrative and general, net	31.8	31.9	(0.1)	75.4	75.5	(0.1)
23	Taxes	37.2	37.5	(0.3)	84.4	89.6	(5.2)
24	Depreciation and amortization	46.7	44.3	2.4	112.5	112.7	(0.2)
25	Total operating expenses	301.0	306.5	(5.5)	752.5	783.6	(31.1)
26							
27	**Net Operating Income**	**65.3**	**82.6**	**(17.3)**	**135.2**	**142.3**	**(7.1)**
28							
29	**Other Deductions, Net**						
30	Investment Income	3.7	3.3	0.4	8.0	6.6	1.4
31	Other income (expense), net	2.2	3.1	(0.9)	24.0	23.8	0.3
32	Interest expense	(30.7)	(32.6)	1.9	(78.5)	(81.2)	2.8
33	Noncapital grants	0.5	(0.9)	1.4	4.5	5.0	(0.5)
34	Capital contributions	11.4	9.0	2.4	36.1	31.5	4.6
35	Capital grants	0.1	0.3	(0.2)	0.3	1.9	(1.6)
36	Total other deductions, net	(12.8)	(17.8)	5.0	(5.5)	(12.5)	7.0
37							
38	***Change in Net Position***	**$ 52.5**	**$ 64.8**	**$ (12.3)**	**$ 129.7**	**$ 129.8**	**$ (0.2)**
39	**Note A:**						
40	Short-term wholesale energy sales, gross	47.5	47.3	0.2	67.1	88.5	(21.4)
41	Short-term wholesale energy purchases	(4.6)	(4.3)	(0.3)	(20.2)	(23.5)	3.4
42	**Net ST wholesale sales before booked-out LT purchases**	**42.9**	**43.0**	**(0.1)**	**46.9**	**65.0**	**(18.1)**
43	Booked-out long term purchases	(2.2)	(3.4)	1.2	(5.1)	(5.0)	(0.1)
44	Net short-term wholesale energy sales	**40.7**	**39.6**	**1.1**	**41.8**	**60.0**	**(18.2)**
45	**Note B:**						
46	Power-related revenues, net (line 7 minus line 16)	3.6	3.4	0.2	24.1	25.4	(1.4)

Seattle City Light
Risk Oversight Status Report
As of June 10, 2015

Summary

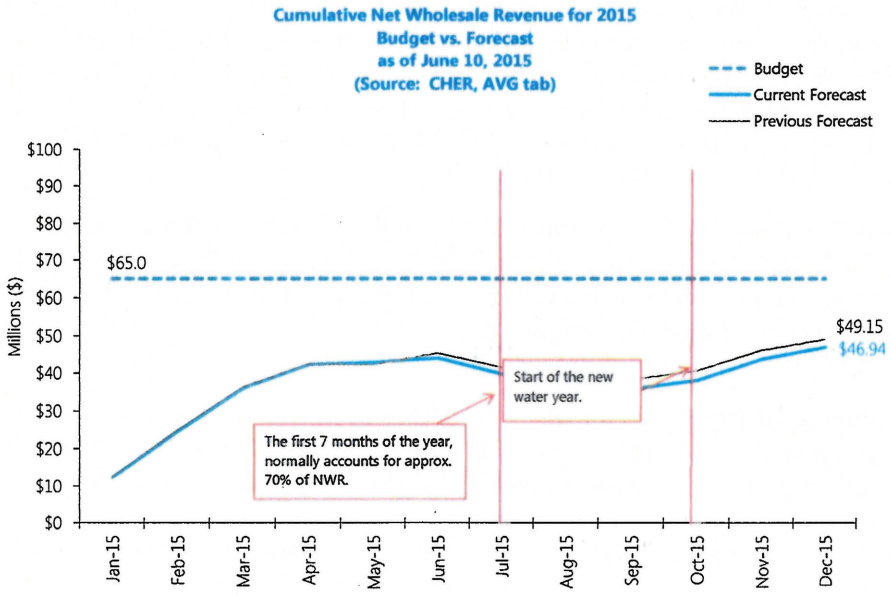
	5 Year Average	2015 Average	% of 5 Year Average
SCL Hydro Generation	1,099 MW	995 MW	91%
Market Prices (Peak Hours)	$32.67	$27.88	85%

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 2015 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 2010-14. 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 2015 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 2010-14. 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 2015 Net Wholesale Revenue (NWR) budget of $65MM with the latest NWR forecast of $46.9MM. The NWR forecast decreased by $2.2MM from the previous forecast of $49.2MM. This decrease in revenues resulted from a decrease in resources forecast from July through December 2015 - accounting for approximately $1.1MM and in current month's forecast by $2.1MM. The decline in NWR forecast was partially offset by $0.3MM resulting from increase in power prices and last month's actuals by $0.7MM, respectively.

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	Stop Sale	Compliant	Compliant

**Based on this week's update of hydro forecasts, the Forward Month's Resource Requirement (at the 25th percentile) is now indicating a short position (negative position) for the Q3 2015 period. Per WERM Policy this has triggered a stop sales order for the quarter. The Power Management Division has already taken action to conduct no additional sales for that quarter. No further action is required.*

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))*

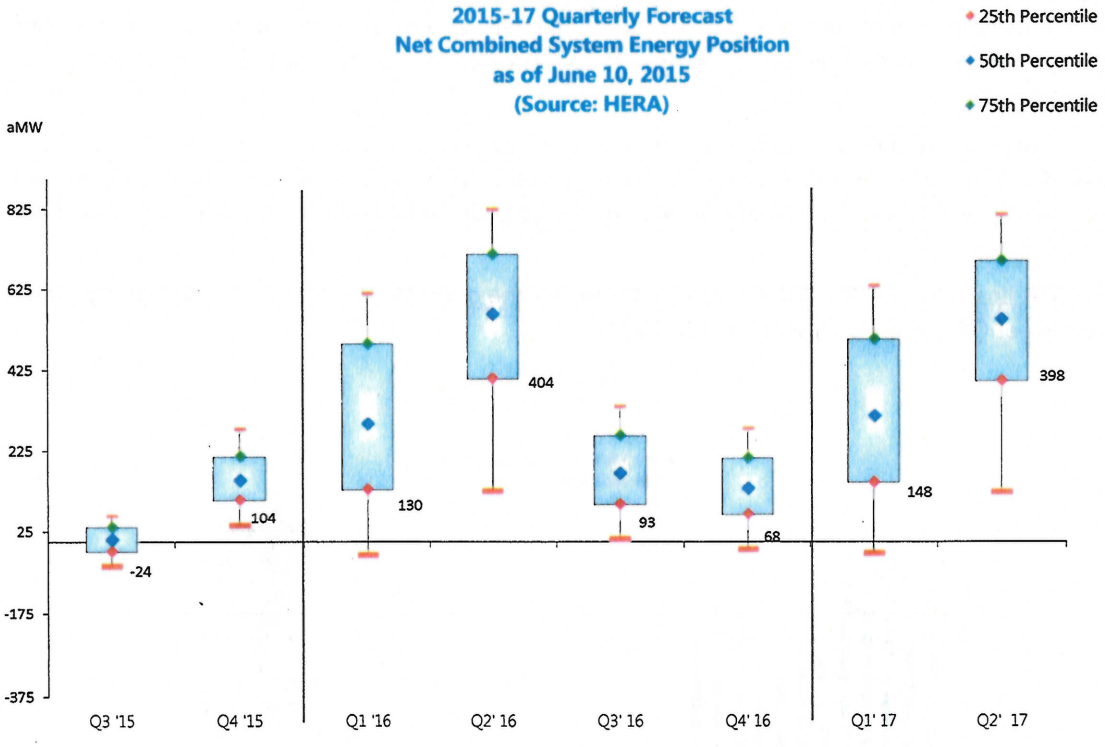
Hedging Plan & Position Status

Hedge Plan 2015, Phase 2 was last proposed and approved by the Risk Oversight Council on April 7, 2015.

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 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, 2015

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.

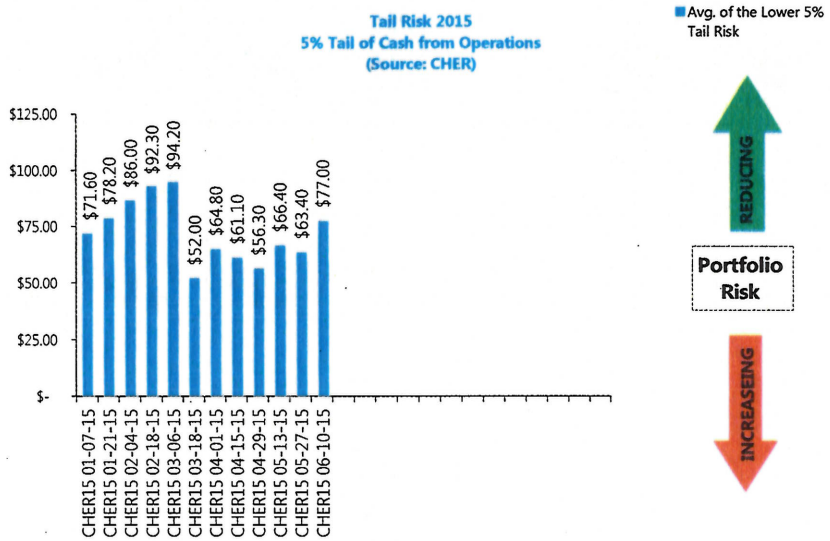
In 2011, the Rate Stabilization Account (RSA) became operational. The RSA is a cash reserve that is used to buffer the Utility from uncertainty in wholesale energy revenue. If the RSA becomes depleted, it is replenished via retail rate surcharges. The RSA significantly mitigates City Light's financial (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 2015. The current projection of a worse case of Cash from Operations is $77.0MM.

Chart 3



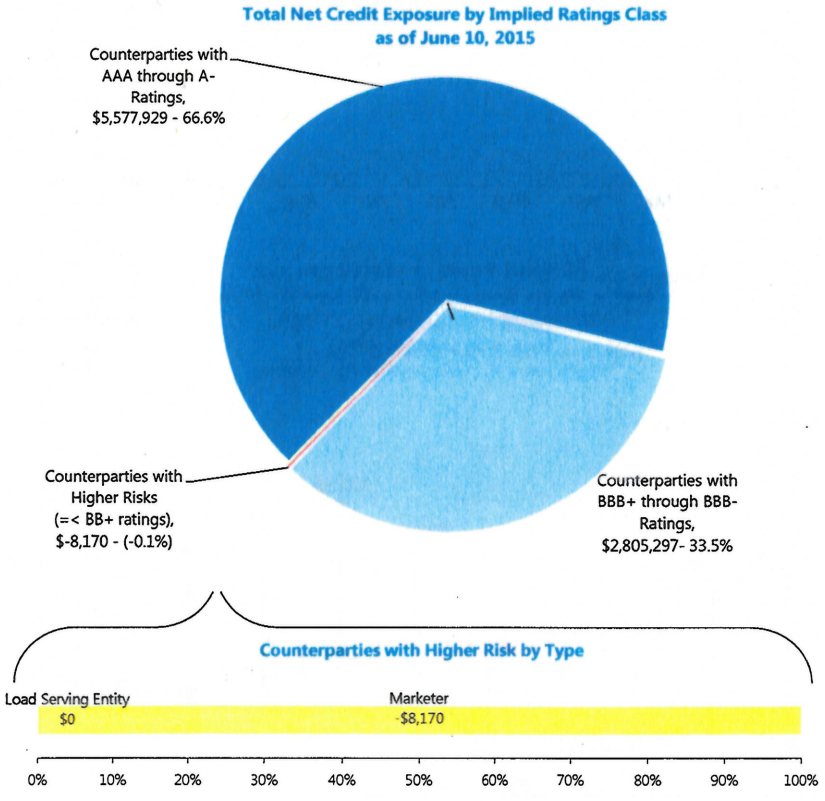
Credit

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

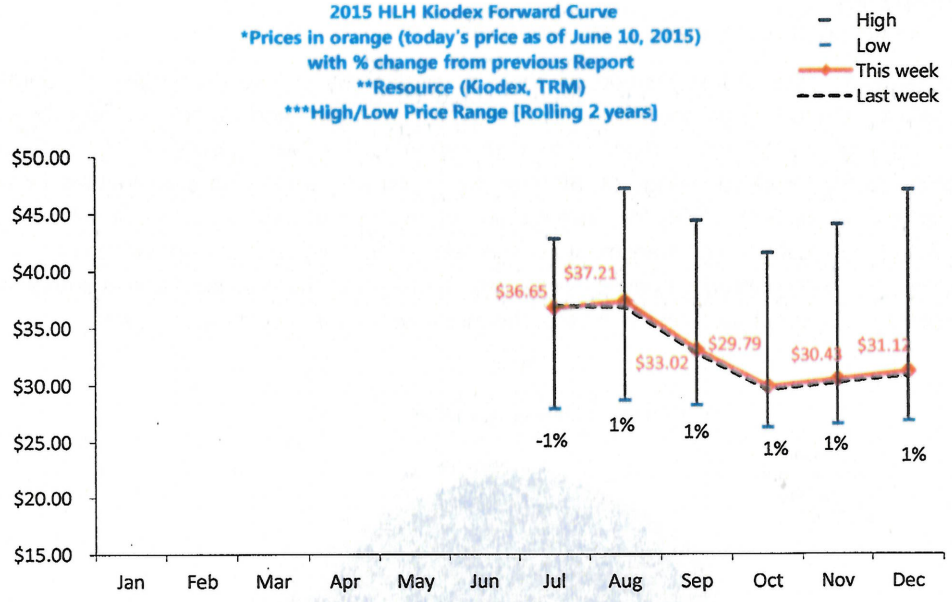


Credit Notes: There are no credit exceedances or credit updates this week.

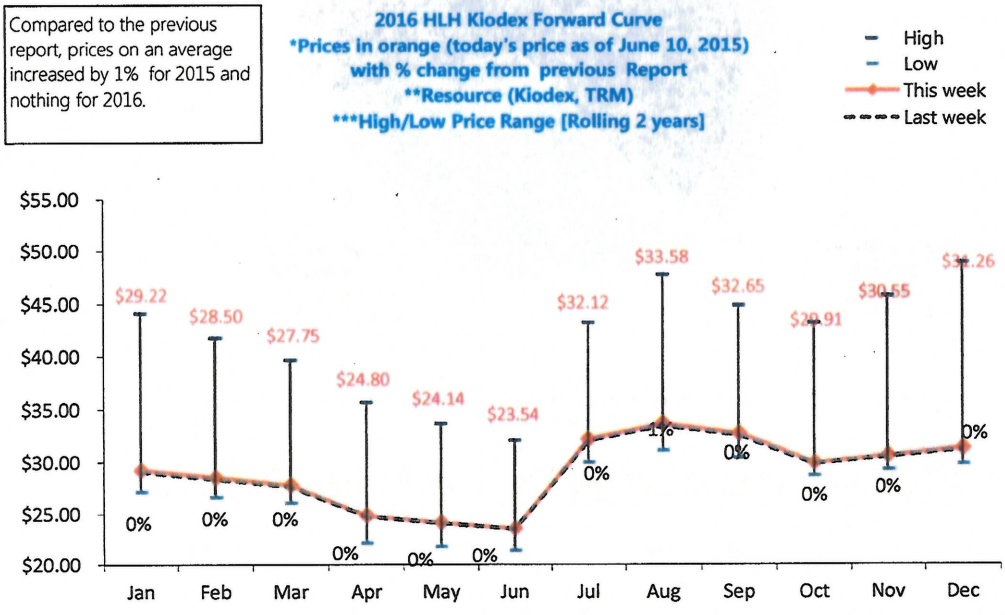
Price

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 2015 & 2016.

Chart 5



Compared to the previous report, prices on an average increased by 1% for 2015 and nothing for 2016.



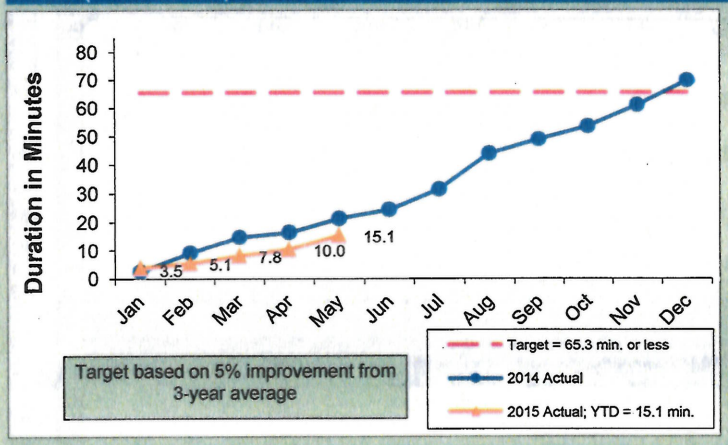
Seattle City Light

Performance Metrics Report

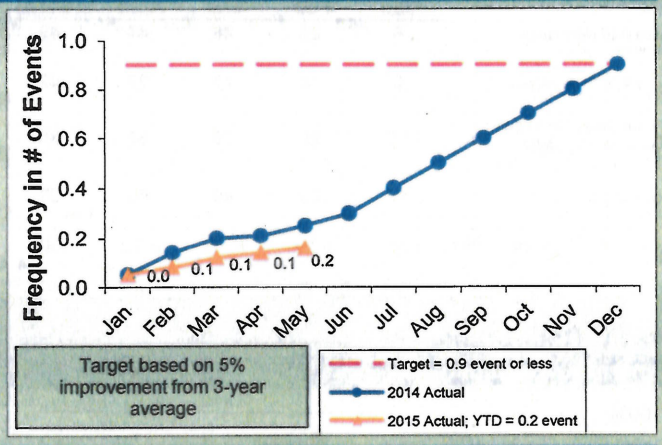
May 2015

Distribution Operations:

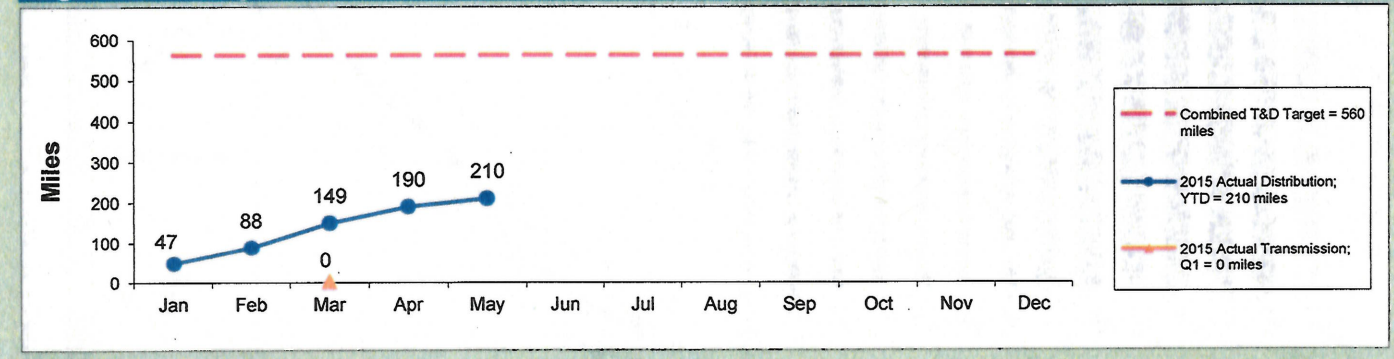
SAIDI (Cumulative)



SAIFI (Cumulative)

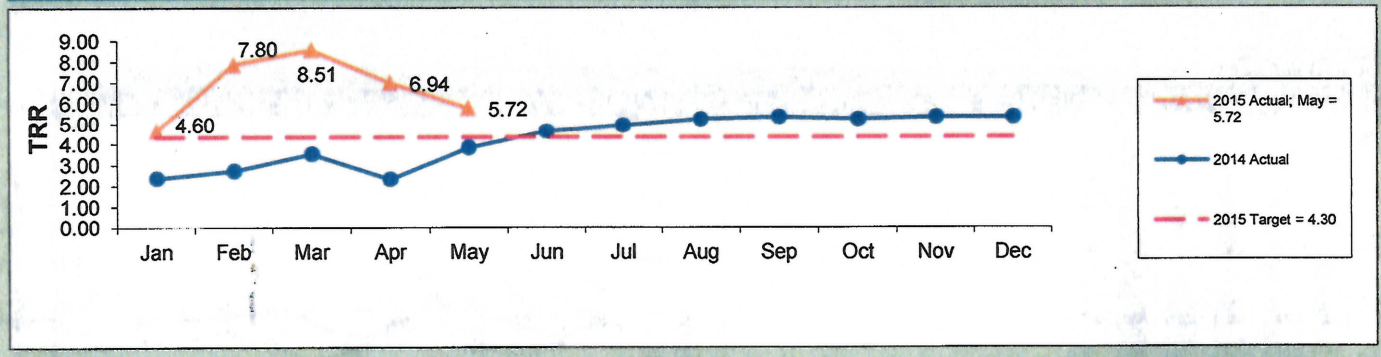


Vegetation Management - Miles of Trees Trimmed (Cumulative)

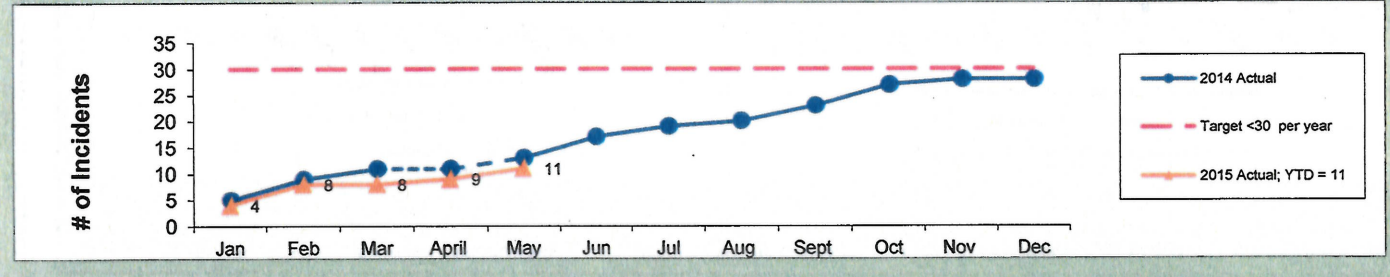


Human Resources:

Safety - Total Recordable Incident Rate (Cumulative)



Safety - Preventable Vehicle Incidents (Cumulative)



Seattle City Light

Performance Metrics Report
May 2015

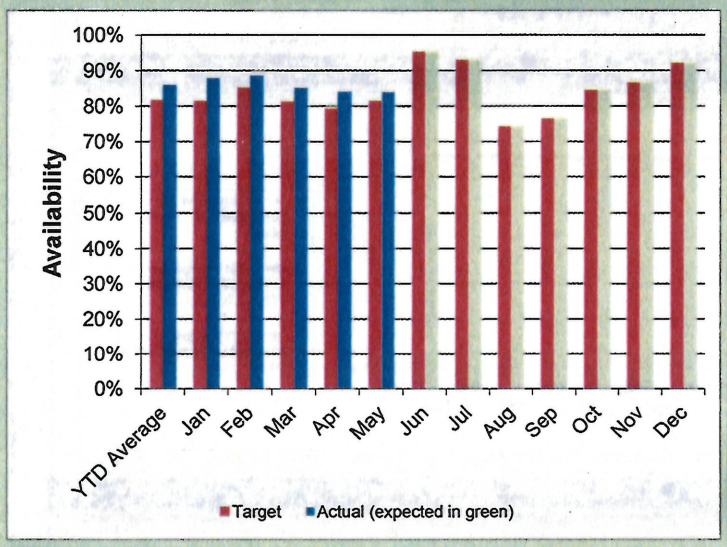
Human Resources:

Hiring Statistics

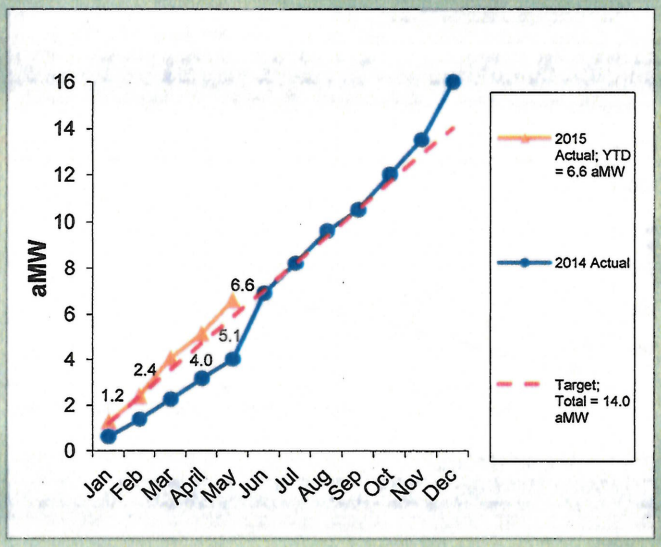
	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Cumulative # of New Hires	6	21	26	44	49							
Cumulative # of Promotions	6	10	20	37	42							
Avg. # Hiring Days for Regular Processes (Goal=30 days)	22	25	25	32	30							
Cumulative Attrition	16	28	40	50	57							
Vacancy Rate Mo. End (Goal=4.0%)	5.6%	5.2%	5.3%	4.7%	4.4%							

Power Resources:

Generator Availability-All Units (Actuals %)

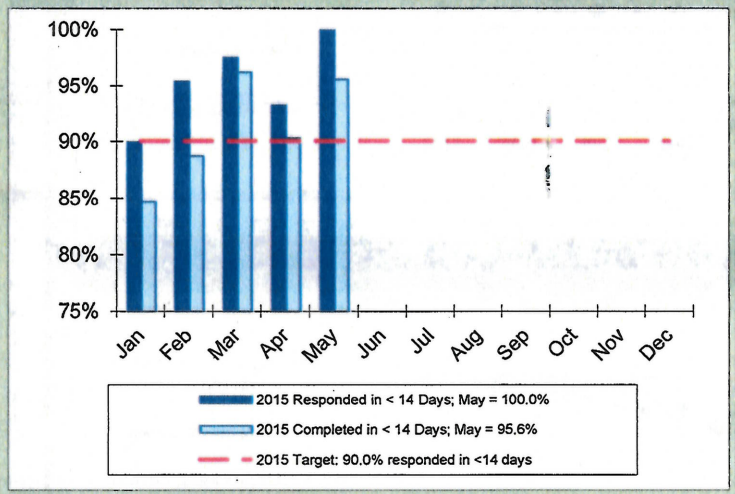
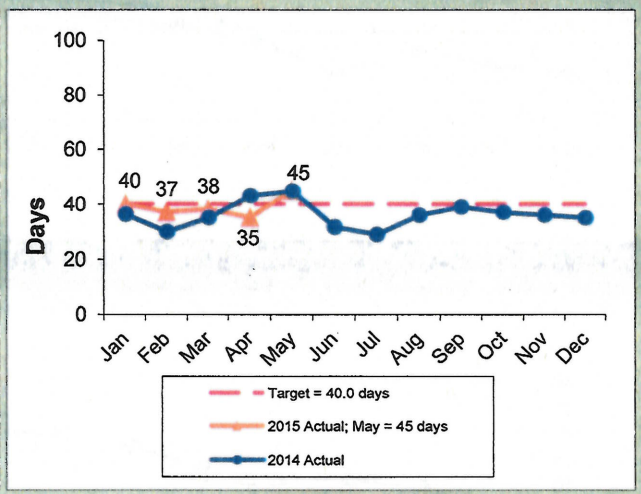


Conservation Savings (Cumulative)



Customer Care:

Streetlight Repairs



Service Connections