

MARCH 30, 2016

**TO**

Ed Murray, Mayor  
Seattle City Council

**FROM**

Larry Weis, General Manager and CEO


**SUBJECT**

Financial Update – February 2016

This memo provides an analysis of Seattle City Light's financial condition and operating results through February 29, 2016.

**FINANCIAL HIGHLIGHTS**

February 29, 2016

\$ in millions	YTD Actuals		YTD	Full Year 2016		
	2016	2015	Plan	Forecast	Plan	Variance
Retail Power Revenues <sup>(1)</sup>	\$ 149.8	\$ 139.6	\$ 155.3	\$ 805.78	\$ 811.20	\$ (5.4)
Surcharge Revenues	\$ -	\$ -	\$ -	\$ 7.3	\$ -	\$ 7.3
Wholesale Energy Sales (net) <sup>(2)</sup>	\$ 13.6	\$ 24.7	\$ 12.0	\$ 42.1	\$ 60.0	\$ (17.9)
Power O&M (net)	\$ (46.0)	\$ (44.6)	\$ (49.5)	\$ (277.7)	\$ (280.4)	\$ 2.7
Non Power O&M (net)	\$ (30.0)	\$ (30.2)	\$ (32.0)	\$ (245.6)	\$ (243.0)	\$ (2.6)
RSA Transfers (net) <sup>(3)</sup>	\$ (1.5)	\$ (13.5)	\$ (0.2)	\$ 10.3	\$ (1.0)	\$ 11.4
Taxes, Depreciation & Other	\$ (43.3)	\$ (41.1)	\$ (40.0)	\$ (204.9)	\$ (206.6)	\$ 1.7
<b>Net Income</b>	<b>\$ 42.5</b>	<b>\$ 34.9</b>	<b>\$ 45.7</b>	<b>\$ 137.4</b>	<b>\$ 140.2</b>	<b>\$ (2.8)</b>
Operating Cash	\$ 78.4	\$ 66.6	\$ 141.7	\$ 129.9	\$ 140.4	\$ (10.5)
Construction Account - Restricted	\$ 102.0	\$ 75.1	\$ 52.8	\$ 69.1	\$ 63.7	\$ 5.4
Rate Stabilization Account	\$ 92.5	\$ 127.9	\$ 91.1	\$ 80.7	\$ 92.0	\$ (11.4)
Bond Reserve	\$ 76.1	\$ 58.0	\$ 75.9	\$ 93.1	\$ 92.9	\$ 0.1
Other Restricted Assets	\$ 13.3	\$ 11.9	\$ 13.2	\$ 13.9	\$ 13.8	\$ 0.1
<b>Total Cash</b>	<b>\$ 362.2</b>	<b>\$ 339.5</b>	<b>\$ 374.8</b>	<b>\$ 386.7</b>	<b>\$ 402.9</b>	<b>\$ (16.1)</b>
Debt Coverage Ratio	n/a	n/a	n/a	1.74	1.75	-0.02
Debt to Capitalization Ratio	63.4%	58.3%	63.3%	63.8%	63.7%	0.1%

(1) Retail power revenues include revenues such as power factor charges.

(2) Revenue from wholesale sales, before booked out long term purchases.

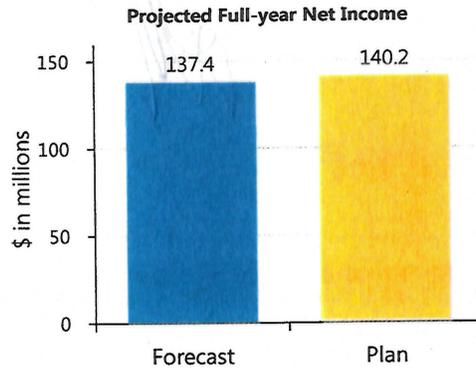
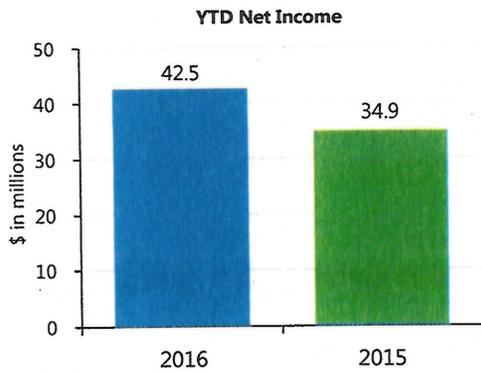
(3) Transfers from the RSA less transfers to the RSA.

**YEAR-TO-DATE NET INCOME, RELATIVE TO 2015**

As indicated in the table on the previous page and in the charts below, net income for the period ending February 29, 2016 was \$42.5 million, which is \$7.6 million or 22% favorable compared to the same time period in 2015. The favorable variance was driven by the increase in retail power revenues due to the 4.9% system average rate increase effective January 1, 2016.

**YEAR-END NET INCOME, RELATIVE TO PLAN**

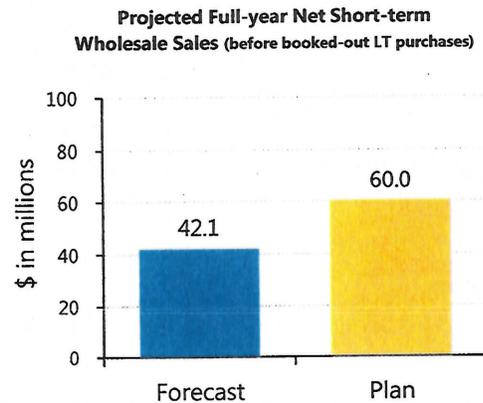
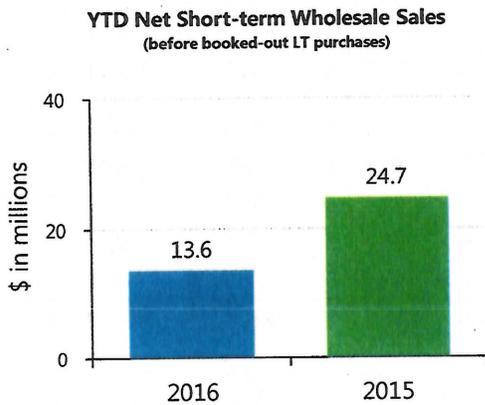
Projected net income for 2016 is \$137.4 million, which is \$2.8 million, or 2% unfavorable compared to the 2016 Financial Plan of \$140.2 million. The primary driver of the unfavorable variance was a shortfall in retail power revenue driven by above normal temperatures.



**NET SHORT-TERM WHOLESALE ENERGY**

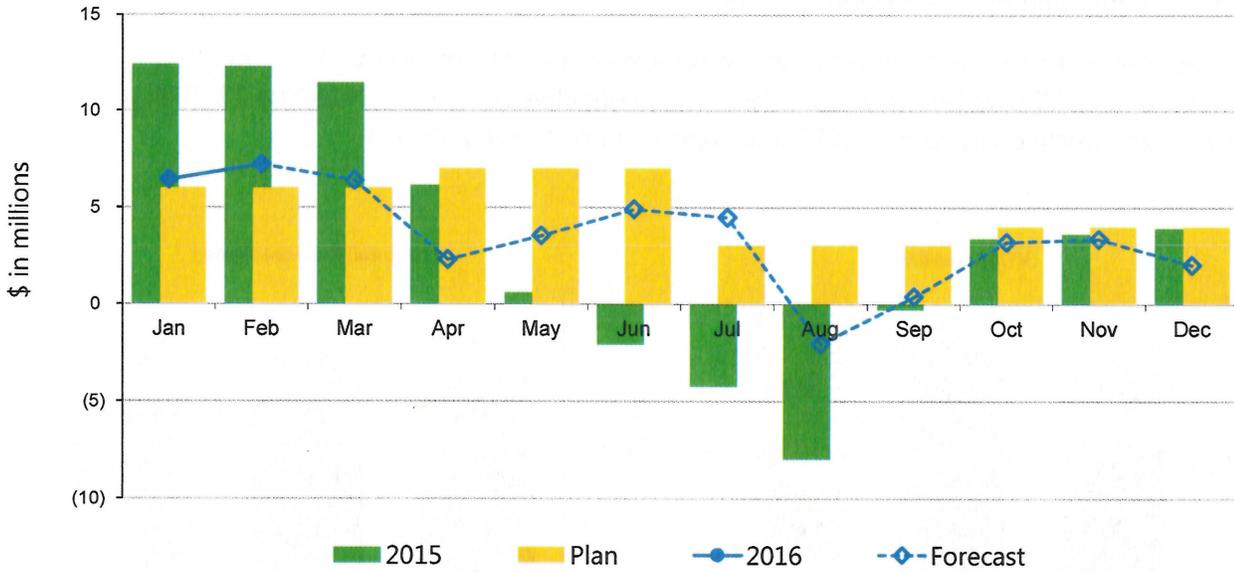
February year-to-date net wholesale revenues of \$13.6 million declined \$11.1 million or 45% from 2015 due primarily to record generation levels in early 2015 driven by a warm and wet winter, resulting in net wholesale revenues that were much higher than normal for February.

The current estimate of full-year 2016 net wholesale revenue is \$42.1 million, which is \$17.9 million or 30% below the 2016 Plan of \$60 million.



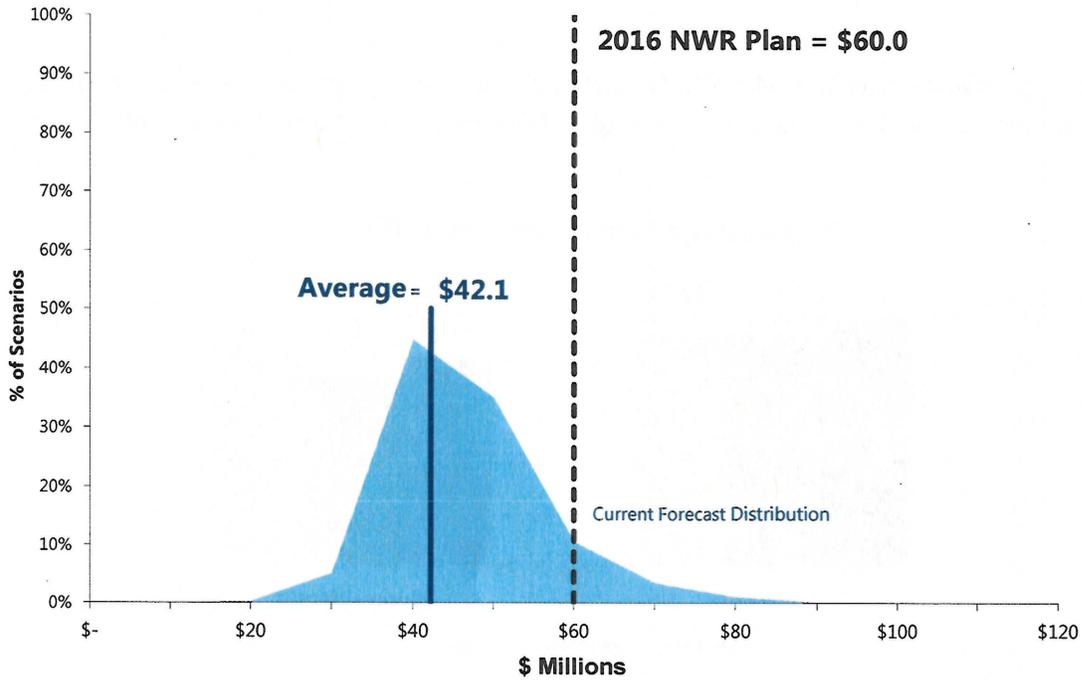
The projections of net short-term wholesale energy sales fluctuate with changes in water conditions, economic factors such as the price of natural gas and retail load.

### Monthly Net Wholesale Revenues



### 2016 Annual Net Wholesale Revenue Forecast

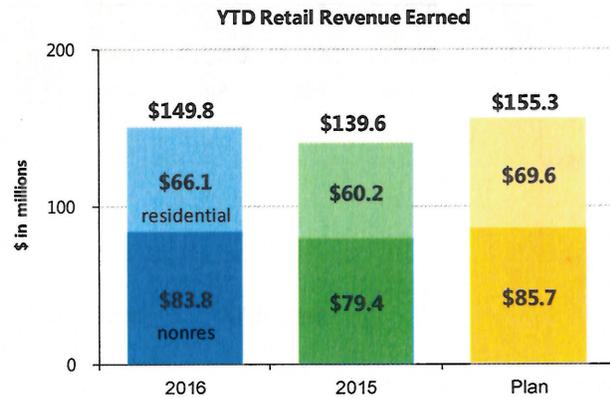
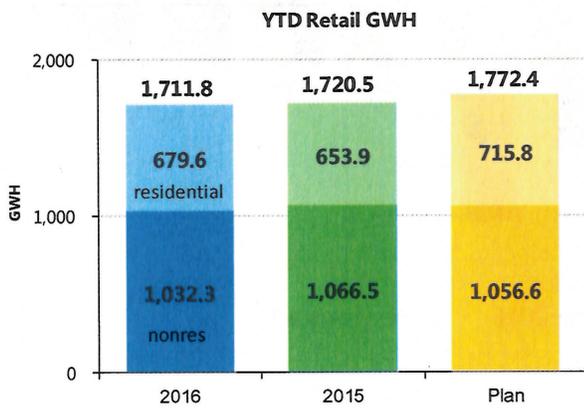
(\$ in millions)



## RETAIL POWER REVENUES

Year-to-date total load was lower than planned by 61 GWh, or 3.4%. Excluding the impact of above average temperatures in early 2016 (less heating load), total load variance to Plan would have been unfavorable by only 20 GWh, or 1.1%. The weather similarly impacted year-to-date retail revenue, which was lower than planned by \$5.4 million, or 3.5%.

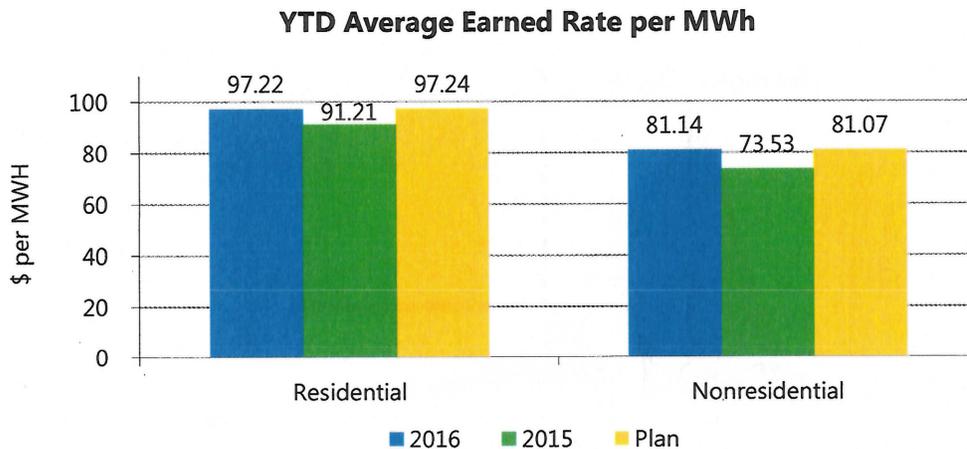
Year-to-date retail revenue was higher than the prior year by \$10.2 million or 7.3% due to a combination of the 4.9% system average rate increase effective January 1, 2016, the 1% BPA pass-through charge effective October 1, 2015 and slightly more heating load.



	YTD Retail GWH		
	Nonresidential	Residential	Total
2016 vs. 2015	-3.2%	3.9%	-0.5%
2016 vs. Plan	-2.3%	-5.1%	-3.4%

	YTD Retail Revenue		
	Nonresidential	Residential	Total
2016 vs. 2015	5.5%	9.7%	7.3%
2016 vs. Plan	-2.2%	-5.1%	-3.5%

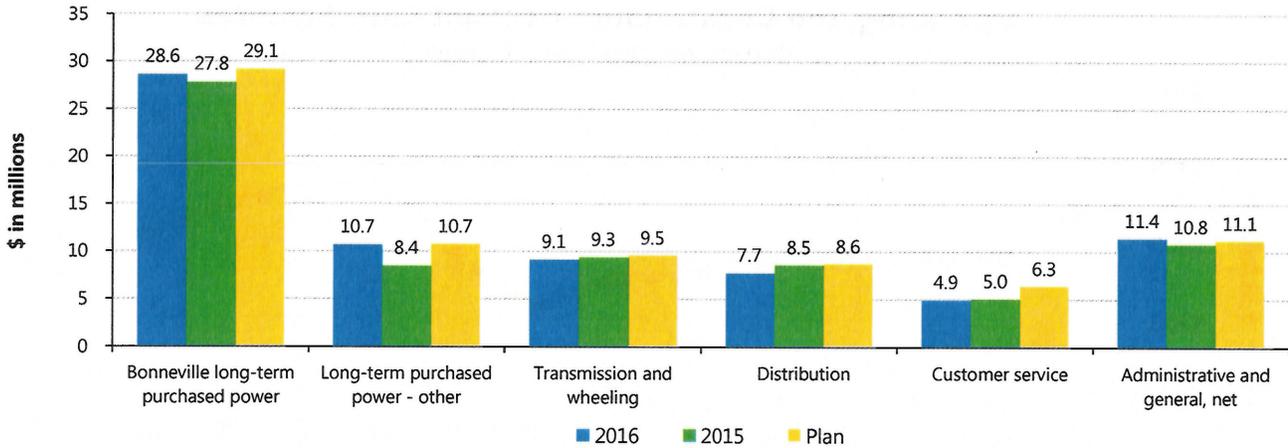
The actual average earned rate per MWh for residential and nonresidential customers is different from what was expected in the 2016 Plan due to slight differences in assumed versus actual patterns of consumption.



**DATA FOR SELECTED ACCOUNTS**

The following chart presents year-to-date 2016 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 2015 are detailed below.

**YTD Selected Expenses**

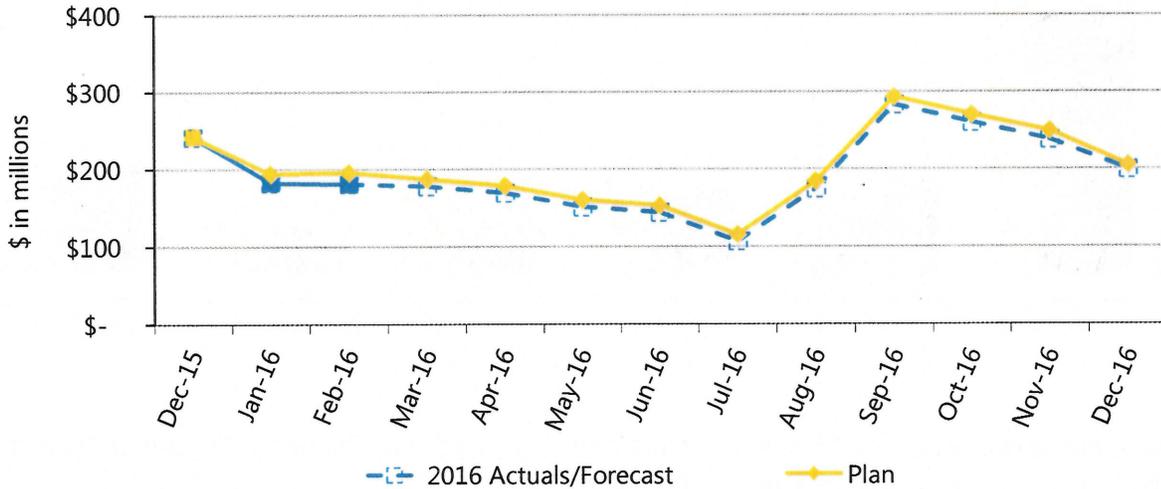


- Bonneville expenses: The \$0.8 million unfavorable year-over-year variance was due to an increase in BPA costs driven by a rate increase effective October 1, 2015.
- Long-term purchased power: The \$2.3 million unfavorable year-over-year variance was due primarily to the timing of Grant County PUD expense recognition. In 2016, the full-year expense was recognized in January whereas in 2015 the expense was spread across all months.
- Transmission and wheeling expenses: The \$0.2 million favorable year-over-year variance is reasonable compared to 2015.
- Distribution costs: The \$0.8 million favorable year-over-year variance was due to a decrease in both underground and overhead maintenance expense.
- Customer service expenses: The \$0.1 million favorable year-over-year variance is reasonable compared to 2015.
- Administrative and general expenses: The \$0.6 million unfavorable year-over-year variance was due primarily to the timing of various accounting accrual reversals, which will be offset in the coming months.

**CASH POSITION**

As of February 29, 2016, City Light’s operating plus construction account cash balance was \$180.3 million, which is \$14.2 million or 7.3% under the 2016 Financial Plan of \$194.5 million. The forecasted year-end balance of operating and construction account cash is \$199.0 million, which is \$5.1 million or 2.5% under the 2016 Financial Plan of \$204.1 million.

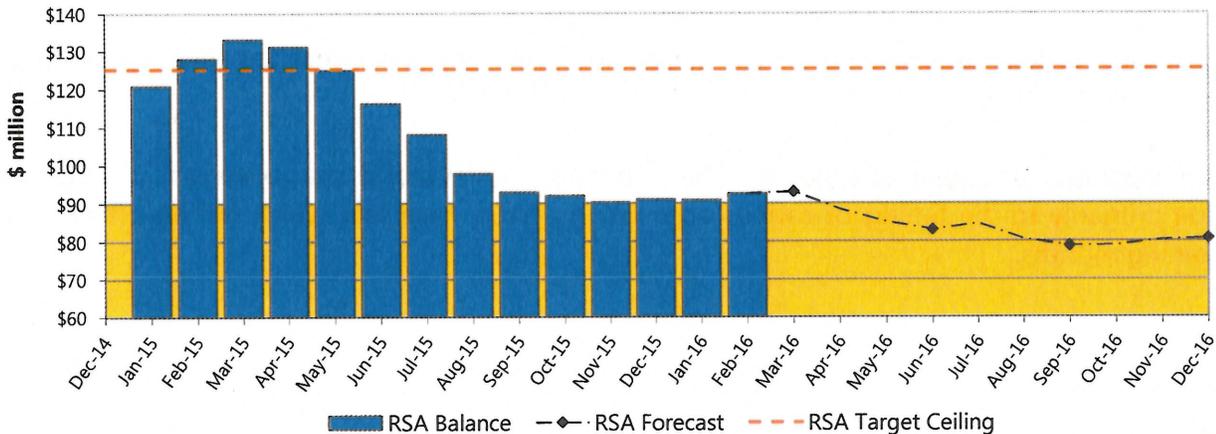
**Operating and Construction Account Cash Balances**  
(Excludes Rate Stabilization Account)



**RSA POSITION**

The cash balance in the rate stabilization account was \$92.5 million as of February 29, 2016, which is \$7.5 million or 7.5% under the \$100 million RSA target. Given the current 2016 net wholesale revenue forecast, it is likely that the RSA balance will drop below the surcharge trigger of \$90 million and a surcharge will be implemented sometime in 2016.

**Rate Stabilization Account**



## **2016 BUDGET**

As of February 2016, City Light is projecting that overall it will be within its budget authority through year-end 2016. The Department has spent 24% of the overall O&M budget (O&M budget includes Non-Power O&M expenses, Purchased Power, Taxes and Debt Service) through February. At this point in the year we would normally expect to have spent 17% of the annual budget, but carry forward encumbrances overstate the spending in the 1st Quarter. City Light's spending on the Capital program through February is approximately 80% of the 2016 year to date forecast. City Light anticipates that the accomplishment rate will be 90% by year-end.

## **DEBT-TO-CAPITALIZATION**

As of February 29, 2016, City Light's debt-to-capitalization ratio was 63.4%, a decrease from 64.7% reported at December 31, 2015. Based on the revised forecast, the 2016 year-end debt-to-capitalization ratio is expected to be 63.8%, which is just slightly higher than the 2016 Plan of 63.7%.

## **COMPLIANCE**

Attached for your information is the City Light Risk Oversight Status Report as of March 2, 2016, 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 February 29, 2016, with 2015 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  
February 2016**

**Variance Year-to-Date 2016 Compared to 2015 Actuals: \$7.6 million or 21.8%**

Major components (\$ in millions):

\$34.9	Net Income YTD through February 28, 2015
(\$11.0)	Lower net wholesale energy sales due to lower volumes than prior year, which had increased production in January and February resulting from warmer weather and earlier snowmelt combined with slightly lower market prices y-t-d.
\$12.0	Lower transfers to RSA y-t-d due to wholesale revenues closer to budget than prior year which had warmer weather y-t-d which resulted in earlier snowmelt and higher generation than budgeted in first two months of 2015.
\$10.2	Higher retail power revenues due partially to a comprehensive rate increase of 4.9% effective 1/1/2015 and BPA pass through rate increase of 0.9% effective 10/1/2015.
\$1.3	Higher power related revenues - other due primarily to recognition of full year of Grant County contract compared to monthly recognition in prior year.
\$2.3	Higher long term purchased power - other due to full year recognition of Grant County contract costs
(\$2.2)	Lower capital contributions due to lower Time & Material revenue resulting from less work performed on outstanding jobs.
(\$1.2)	Higher interest expense due to January 2016 bond issue.
\$1.4	Lower taxes due to timing of renewable tax credit.
(\$5.2)	Other (net)
\$42.5	Net Income YTD through February 29, 2016

**Variance 2016 Revised Forecast Compared to Financial Plan: -\$2.8 million or -2.0%**

Major components (\$ in millions):

\$140.2	Net Income through December 31, 2016 - Financial Plan
\$1.9	Retail power revenues higher than plan due to an unplanned \$6.6 million transfer of surcharge revenue to the RSA; partially offset by lower than planned consumption driven by above normal temperatures.
(\$18.2)	Net wholesale energy sales lower than plan due to lower than average hydro conditions and depressed power market prices
\$11.4	Transfers from the RSA higher than plan due to lower than budgeted short-term net wholesale energy sales
\$2.1	Other (net)
\$137.4	Net Income YTD through December 31, 2016 - Revised Forecast





## Seattle City Light Risk Oversight Status Report As of March 02, 2016

### Summary

	5 Year Average	2016 Average	% of 5 Year Average
SCL Hydro Generation	1,098 MW	1,045 MW	95%
Market Prices (Peak Hours)	\$30.63	\$18.66	61%

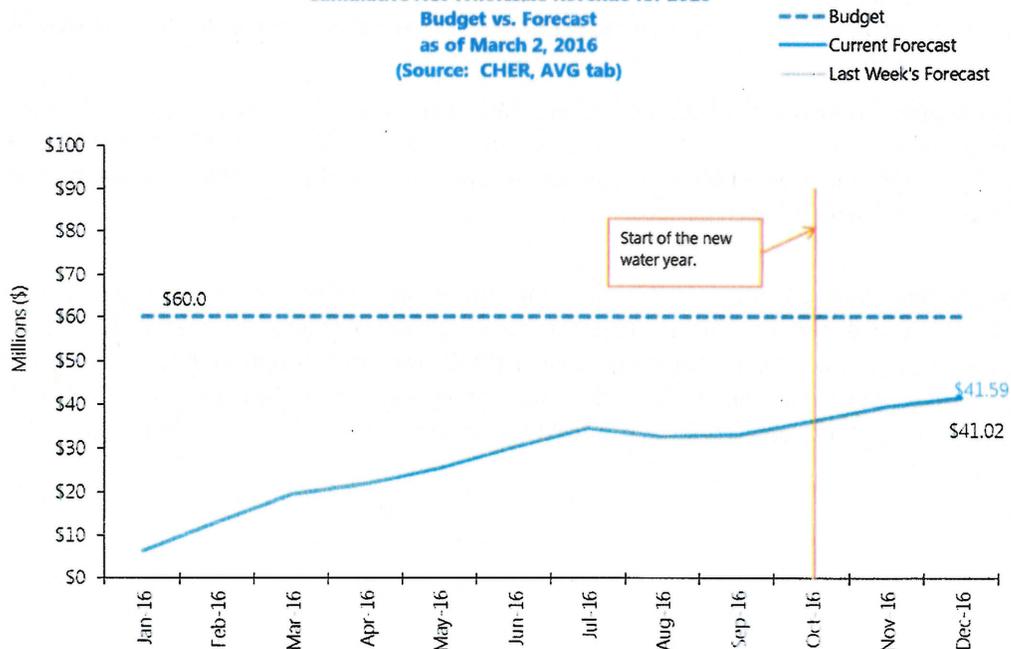
**SCL Hydro Generation:** This shows the total average generation per hour for Seattle City Light's three major hydroelectric resources (Skagit, Boundary, and BPA Slice). For the 2016 calendar year this average includes actual generation for past months and forecasted MW for future months. The 5 year average value is comprised of actual generation for the years 2011-15. 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 2016 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 2011-15. 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 2016 NWR budget of \$60MM with the latest 2016 NWR forecast of \$41.59MM. The NWR forecast increased by \$0.6MM from the previous forecast of \$41.02MM as a result of increase in resource forecast for remainder of the year accounting for \$2.3MM. This increase was partially offset by lower prices and lower expected actual net revenue for March, accounting for \$0.3MM and \$1.5MM, respectively.

Chart 1

**Cumulative Net Wholesale Revenue for 2016  
Budget vs. Forecast  
as of March 2, 2016  
(Source: CHER, AVG tab)**





**Seattle City Light  
Risk Oversight Status Report  
As of March 02, 2016**

**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 25<sup>th</sup> 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 50<sup>th</sup> percentile. Such corrective action shall reduce the said deficit to zero at 50<sup>th</sup> 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))*



# Seattle City Light Risk Oversight Status Report As of March 02, 2016

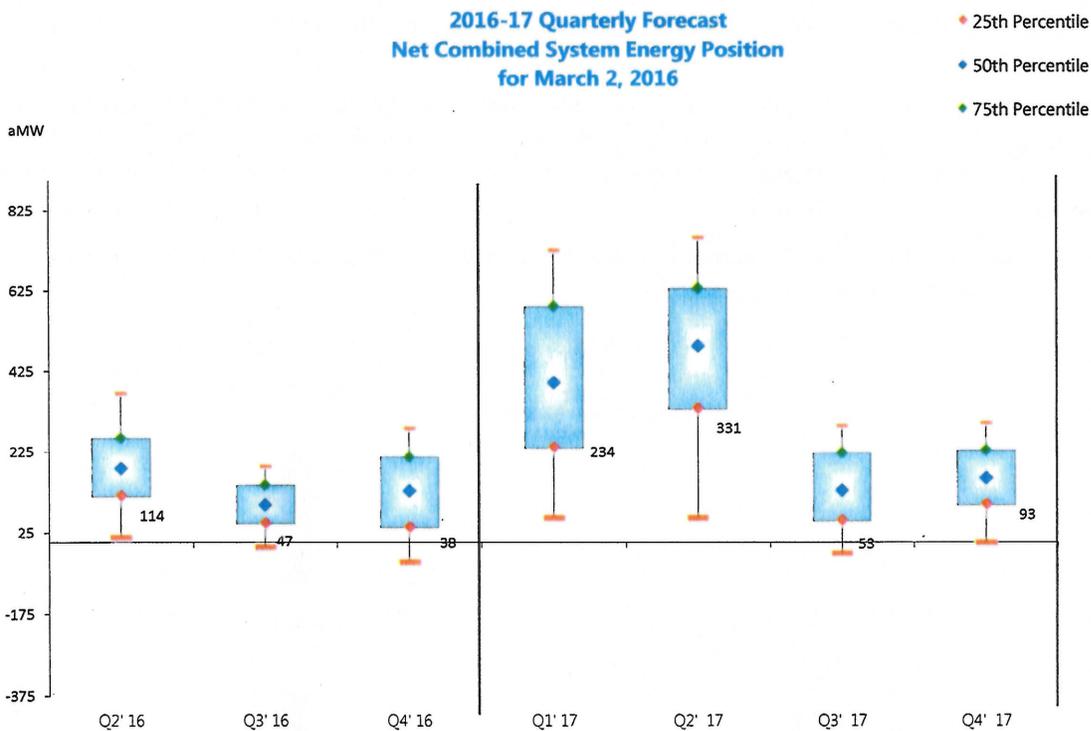
## Hedging Plan & Position Status

Hedge Plan 2016, Phase 1 was last proposed and approved by the Risk Oversight Council on January 7, 2016.

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 25<sup>th</sup> to 75<sup>th</sup> percentile. The dark blue diamonds inside the boxes represent the 50<sup>th</sup> percentile. If the blue diamond falls below zero, City Light must purchase adequate energy to cover that deficit.

Chart 2





# Seattle City Light Risk Oversight Status Report As of March 02, 2016

## 5% Tail Risk Metric, 2016

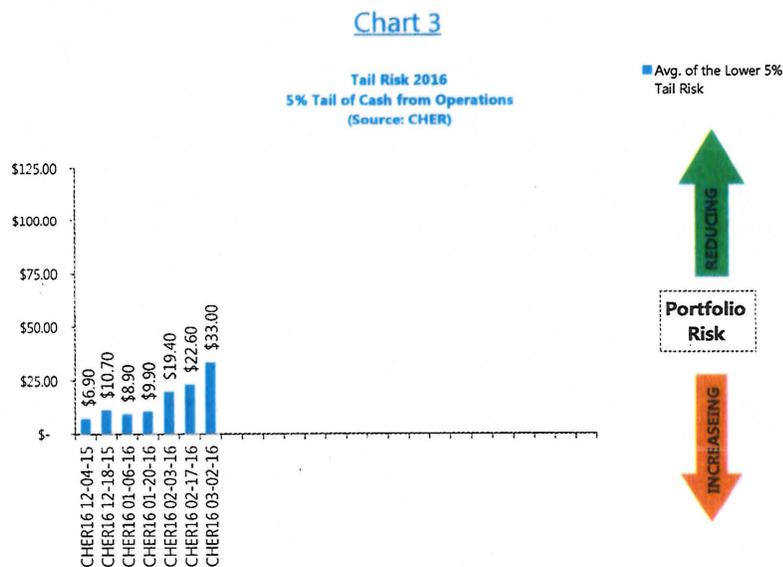
In October 2007, City Light implemented a risk metric named the "5% Tail Risk". It is calculated as the average of the worst-case scenarios for City Light's cash from operations for the calendar year. Cash from operations is a bottom-line financial metric defined as the cash available to finance capital 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 2016. The current projection of a worse case of Cash from Operations is \$33.0MM.





## Seattle City Light Risk Oversight Status Report As of March 02, 2016

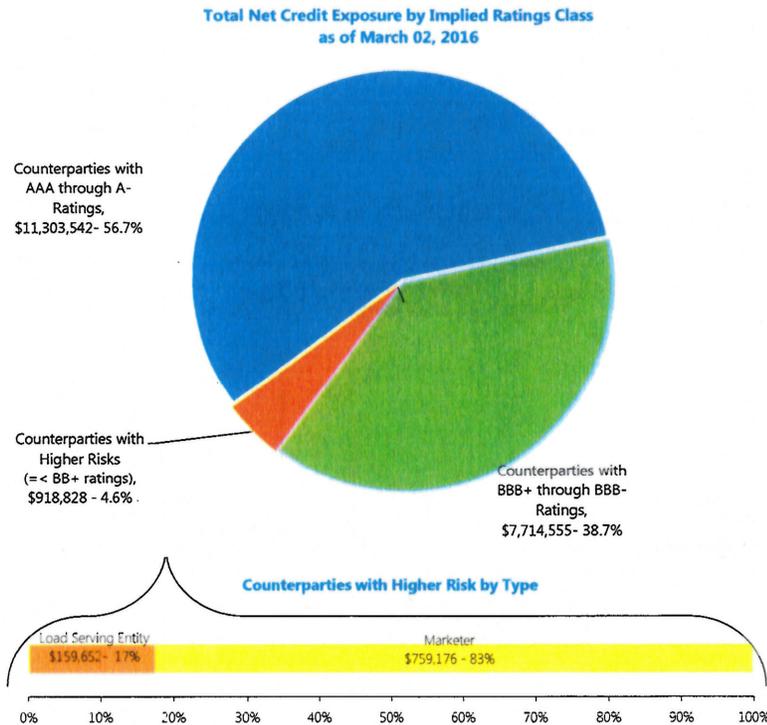
### Credit

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 updates this week.

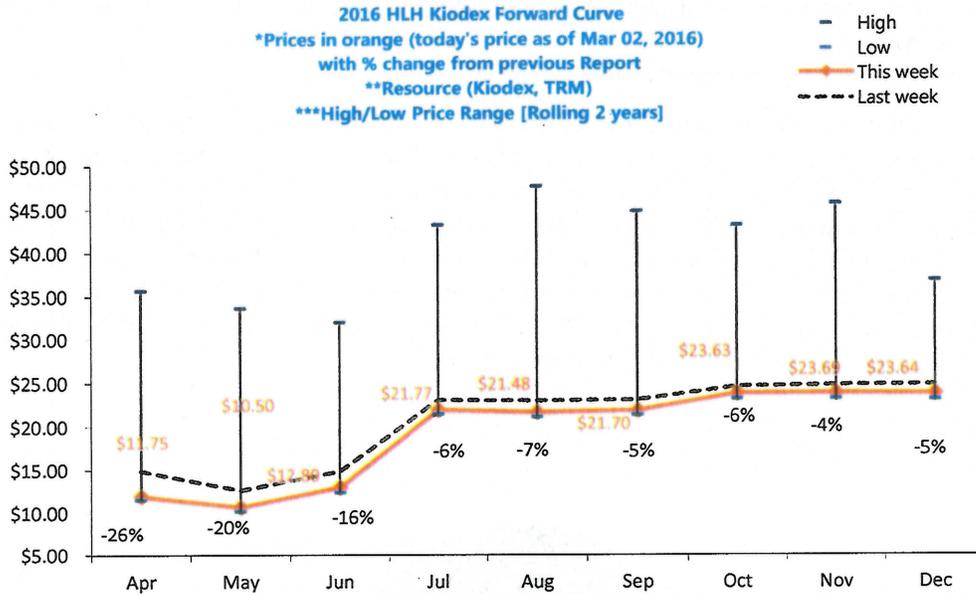


## Seattle City Light Risk Oversight Status Report As of March 02, 2016

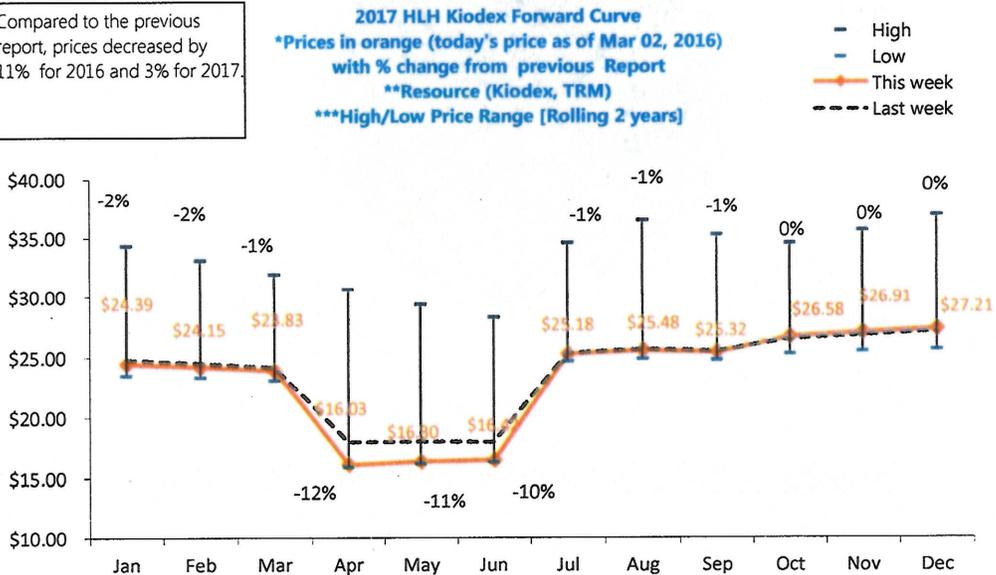
### Price

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 2016 and 2017.

Chart 5



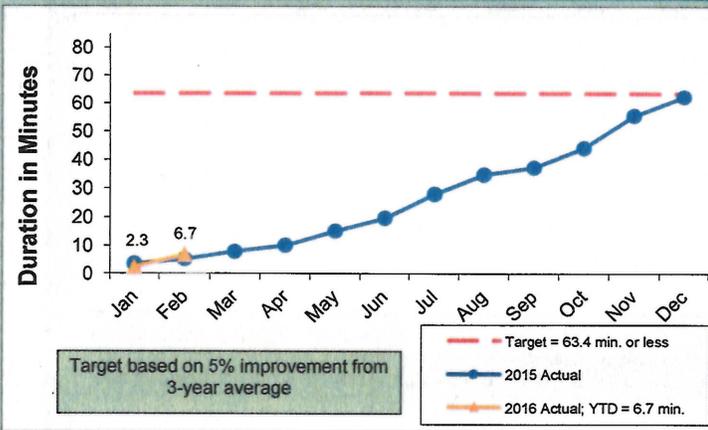
Compared to the previous report, prices decreased by 11% for 2016 and 3% for 2017.



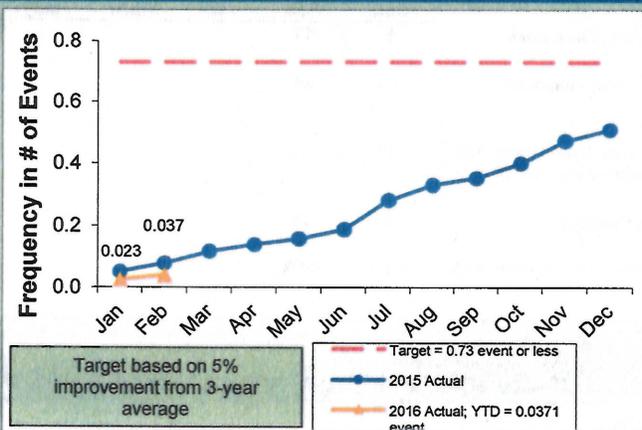


**Distribution Operations:**

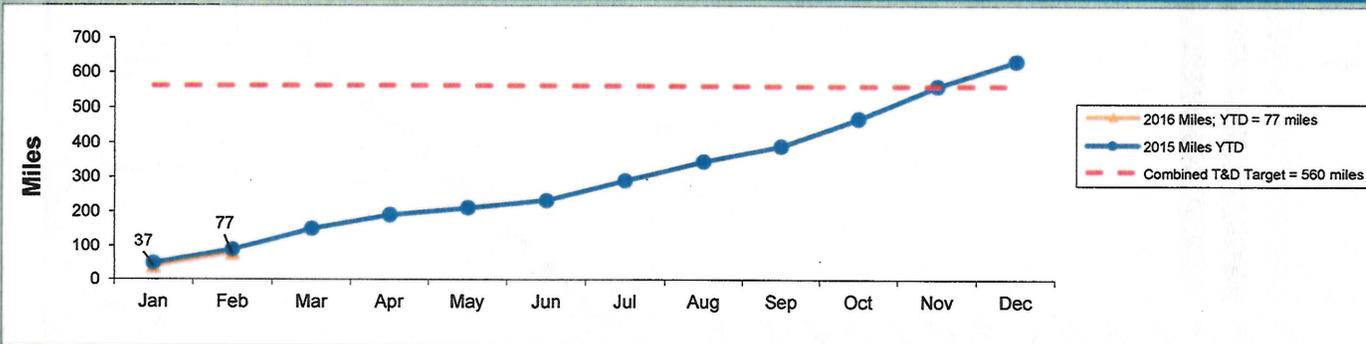
**SAIDI (Cumulative)**



**SAIFI (Cumulative)**

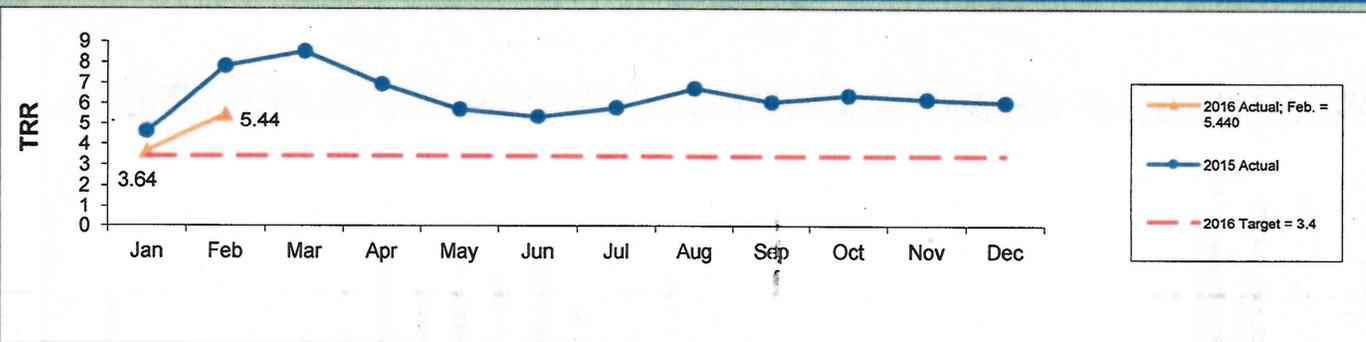


**Vegetation Management - Miles of Trees Trimmed (Cumulative)**

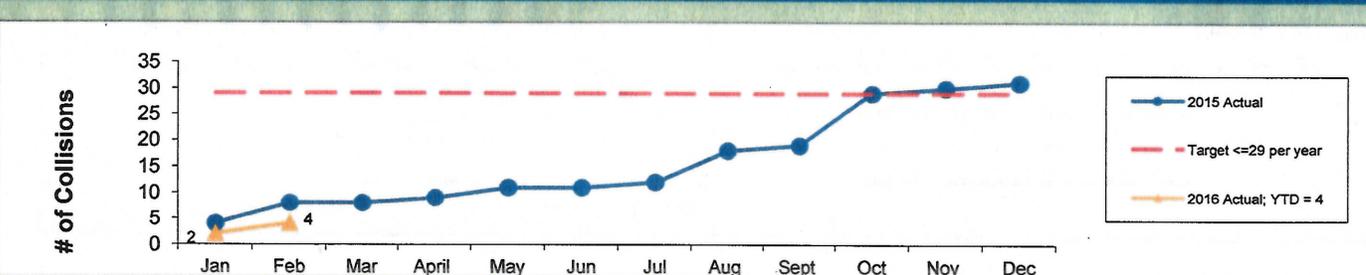


**Human Resources:**

**Safety - Total Recordable Incident Rate (Cumulative)**



**Safety - Preventable Motor Vehicle Collisions (Cumulative)**



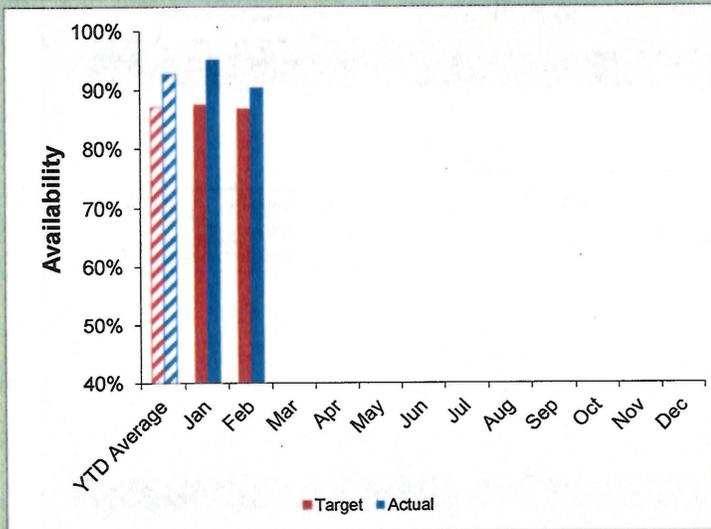
**Human Resources:**

**Hiring Statistics**

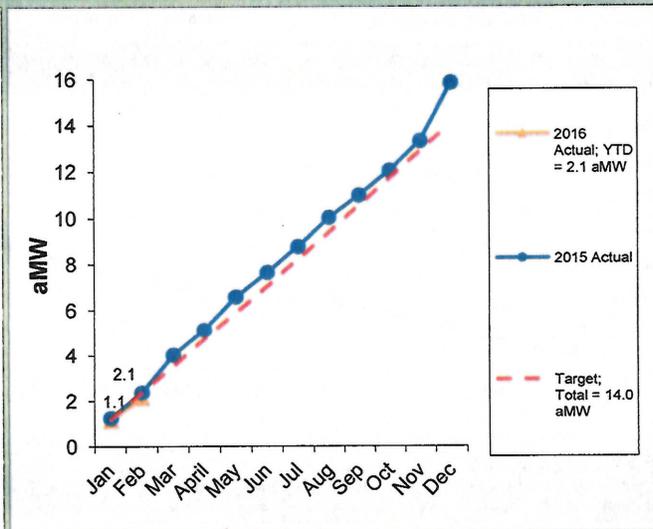
	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Cumulative # of New Hires	5	17										
Cumulative # of Promotions	13	24										
Average Hiring Cycle (Target = 30 days for regular processes)	27	22										
Cumulative Attrition	8	16										
Vacancy Rate Mo. End (Goal=4.0%)	5.1%	5.1%										

**Power Resources:**

**Generator Availability-All Units (Actuals %)**

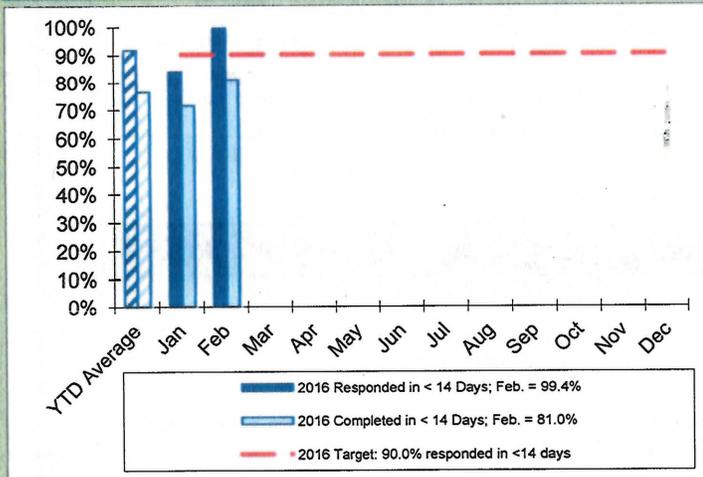


**Conservation Savings (Cumulative)**



**Customer Care:**

**Streetlight Repairs**



**Service Connections**

