Seattle City Light

Memorandum

DATE: March 21, 2013

TO: Mayor Michael McGinn
Seattle City Council

FROM: Jorge Carrasco

SUBJECT: Financial Update – February 2013

This memo provides an analysis of Seattle City Light's financial condition and operating results through February 28, 2013. The attached Income Statement Analysis, which is summarized in the chart below, provides a summary of how City Light performed year-to-date in 2013 compared to the same period of the previous year and the year-to-date 2013 Financial Plan. In addition, we have provided a forecast of City Light's financial results through December 2013 compared to the 2013 Financial Plan. The 2013 Financial Plan is based on the revenues and expense projections included in the adopted budget for 2013.

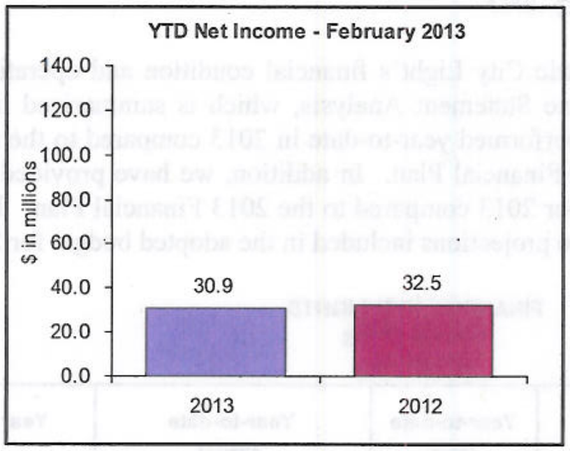
FINANCIAL HIGHLIGHTS
February 2013
($ millions)

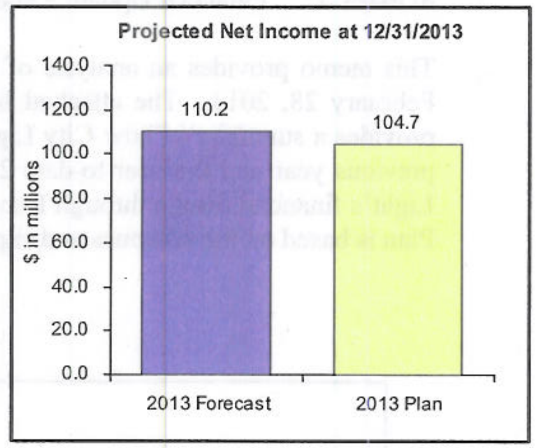
	Year-to-date Plan	Year-to-date Actual		Year End Dec. 31	
	2013	2013	2012	Plan	Forecast
Retail Power Revenues[1]	$ 130.6	$ 132.2	$ 125.8	$ 707.2	$ 714.7
Net Wholesale Energy Sales[2]	$ 18.0	$ 16.8	$ 12.0	$ 90.0	$ 38.5
Net Power O&M	$ (46.6)	$ (47.4)	$ (47.0)	$ (257.2)	$ (260.2)
Net Non-Power O&M	$ (37.9)	$ (26.6)	$ (25.3)	$ (224.4)	$ (220.1)
RSA Transfers, Net[3]	$ (0.2)	$ (1.3)	$ 7.1	$ (1.4)	$ 49.6
Taxes, Depreciation & Other	$ (36.9)	$ (42.8)	$ (40.1)	$ (209.6)	$ (212.2)
Net Income	**$ 27.0**	**$ 30.9**	**$ 32.5**	**$ 104.7**	**$ 110.2**
Operating Cash	$ 118.3	$ 145.0	$ 142.1	$ 135.6	$ 182.6
Construction Account - Restricted	$ -	$ 48.4	$ 24.4	$ 42.8	$ -
Rate Stabilization Account	$ 91.8	$ 129.6	$ 134.5	$ 93.0	$ 78.7
Bond Reserve[4]	$ 32.5	$ 34.2	$ 1.5	$ 57.0	$ 56.3
Other Restricted Assets	$ 4.8	$ 7.1	$ 4.8	$ 16.7	$ 16.1
Total Cash	**$ 247.3**	**$ 364.3**	**$ 307.3**	**$ 345.1**	**$ 333.8**
Debt Coverage Ratio	n/a	n/a	n/a	**1.8**	**1.8**
Debt to Capitalization Ratio	**61.2%**	**61.5%**	**62.5%**	**62.4%**	**61.8%**

(1) Retail Power Revenues include revenues such as Green Power Program and Power Factor Charges and exclude low-income Rate Discounts.
(2) Revenue from wholesale sales, before booked out long term purchases.
(3) Transfers from the RSA less transfers to the RSA.
(4) Funds from the Surety Bond Replacement Fund were moved to the Bond Reserve Account on June 1, 2012.

Net Income

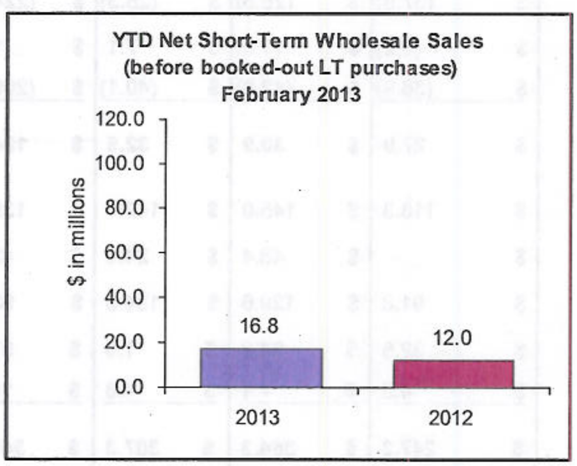
As indicated in the table on the previous page and in the charts below, net income for the period ending February 28, 2013 was $30.9 million, which is a $1.6 million or 4.9% decrease over the same time period in 2012. This decrease is driven by higher customer service, administrative and general expenses, and higher depreciation and amortization expenses. Offsetting factors include higher retail revenues due to an average rate increase of 4.4% effective January 1, 2013 and higher power-related revenues.

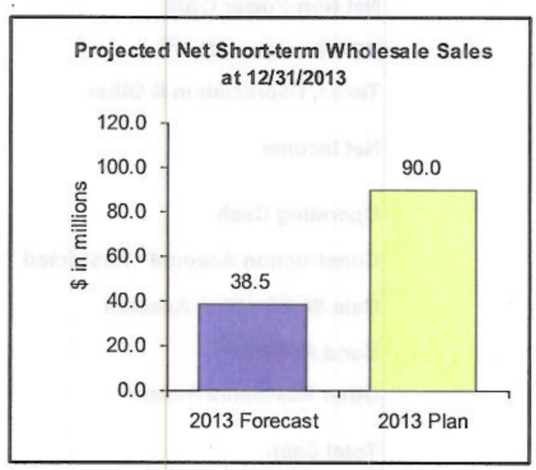




Projected net income at year-end December 31, 2013 is expected to be $110.2 million, which is $5.6 million or 5.4% higher than the 2013 Plan. This difference is primarily explained by higher than planned retail revenues due to higher than planned load because of a colder than normal January.

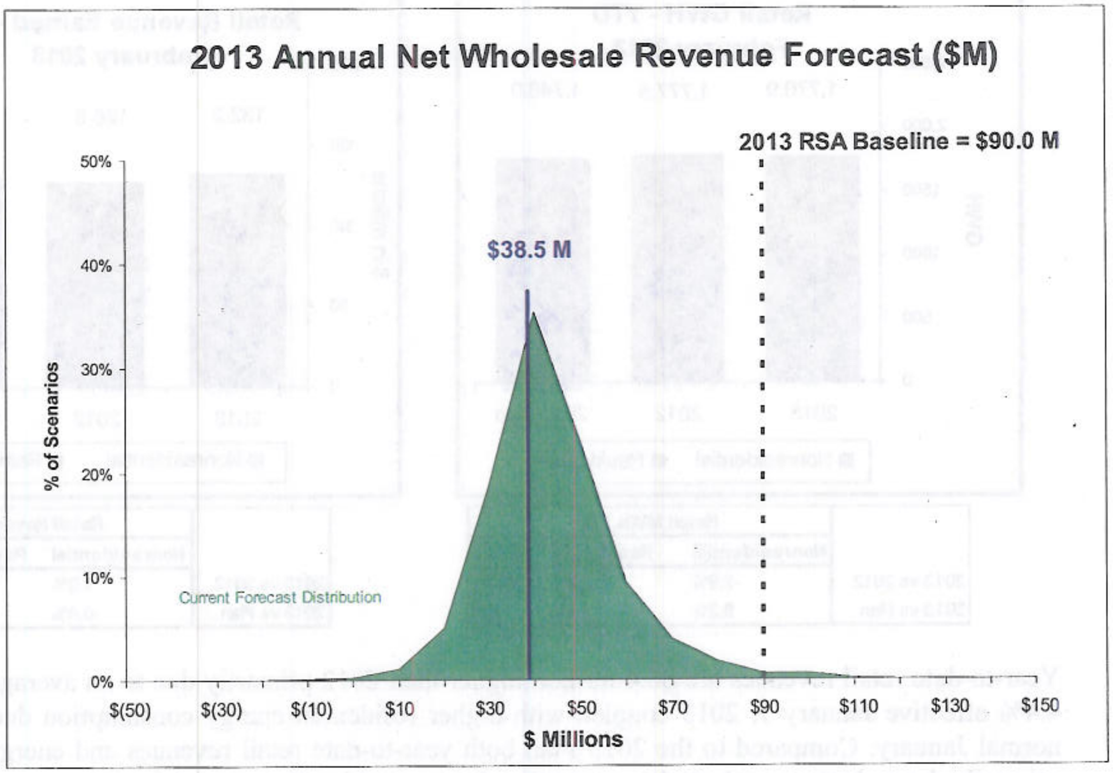
Net Short-Term Wholesale Energy



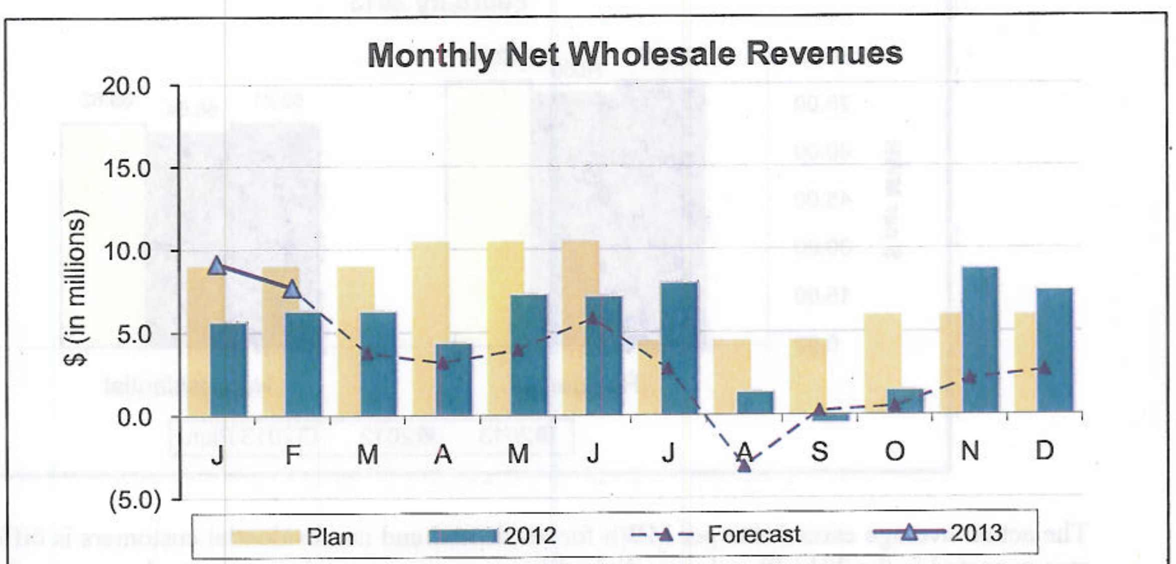


The projections of net short-term wholesale energy sales change weekly due to changes in water conditions, economic factors such as the price of natural gas, system load and the availability of surplus energy for resale. The chart on the next page represents the current forecast for net short-term wholesale revenues before booked-out long-term purchases, which is $38.5 million.

In contrast, the 2013 planned net wholesale revenue is set as specified in the Strategic Plan 2013-2018, which was adopted by City Council in July 2012. Therefore, it does not reflect current market conditions.

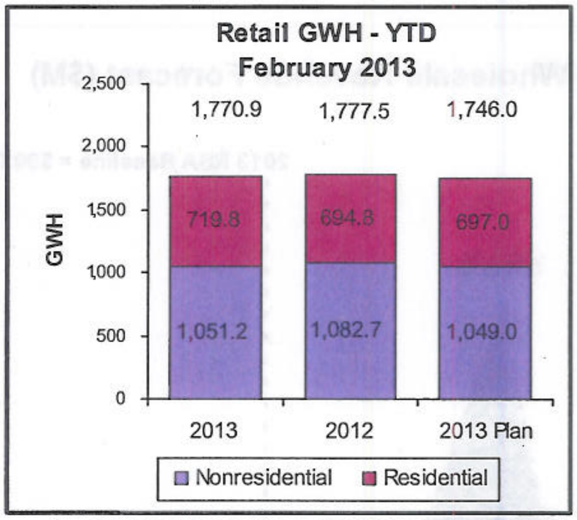


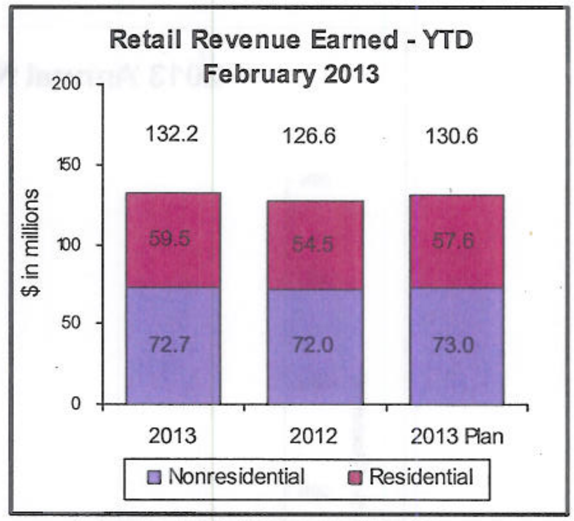
Net wholesale revenues in February 2013 were $7.7 million, $1.4 million higher than in February 2012. The increase is due to higher energy prices this February as compared to last.



Retail Power Revenues

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

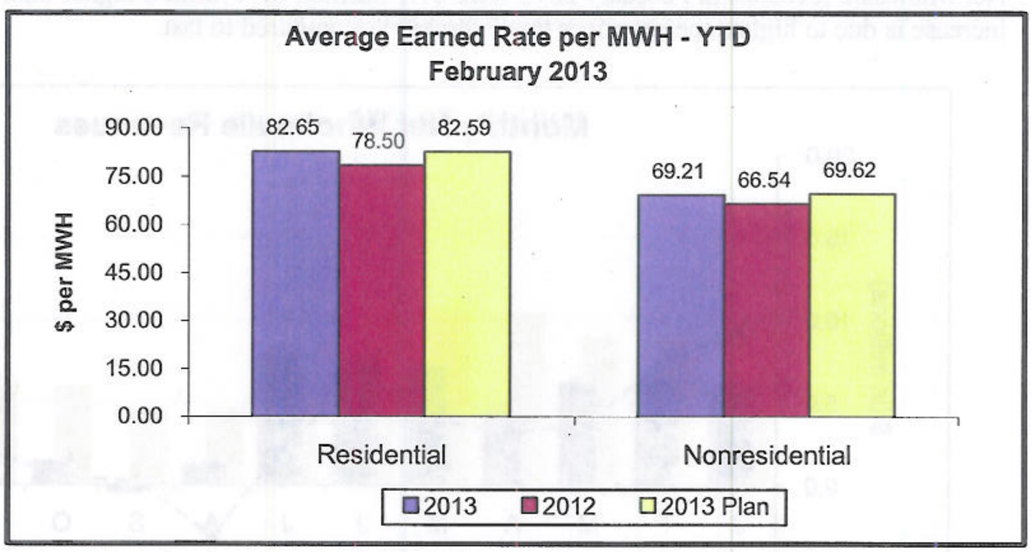




	Retail MWh YTD		
	Nonresidential	Residential	Total
2013 vs 2012	-2.9%	3.6%	-0.4%
2013 vs Plan	0.2%	3.3%	1.4%

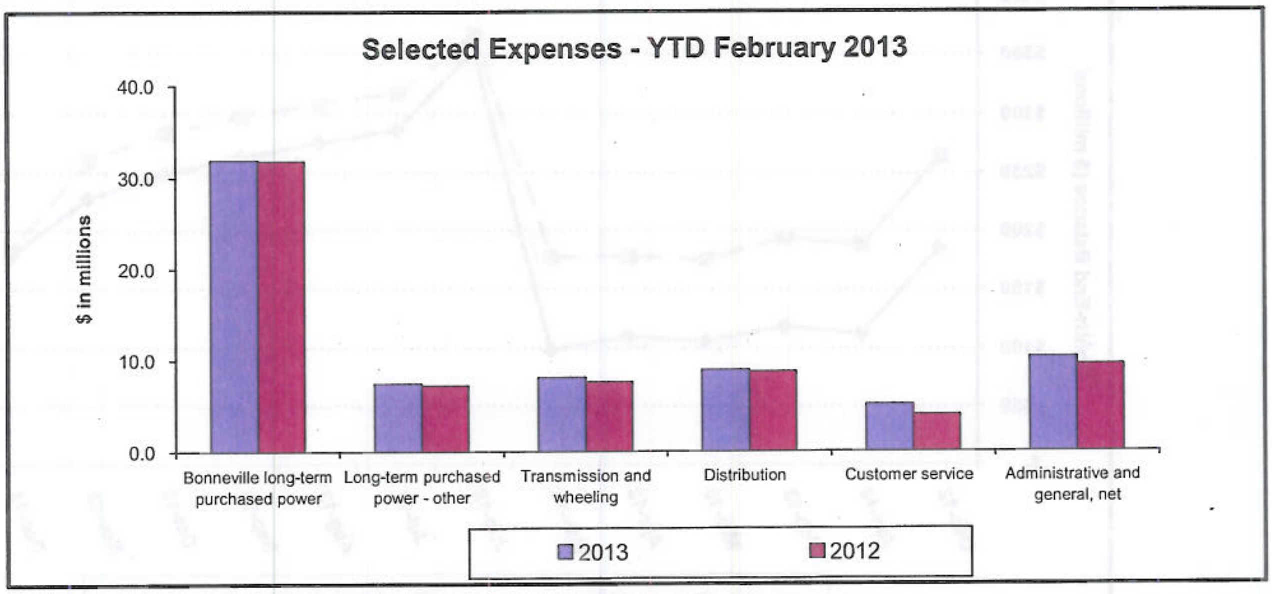
	Retail Revenue YTD		
	Nonresidential	Residential	Total
2013 vs 2012	1.0%	9.1%	4.5%
2013 vs Plan	-0.4%	3.3%	1.3%

Year-to-date retail revenues are $6.4 million higher than 2012 primarily due to an average rate increase of 4.4% effective January 1, 2013 coupled with higher residential energy consumption due to a colder than normal January. Compared to the 2013 Plan both year-to-date retail revenues and energy sales are higher primarily due to higher residential consumption due to a colder than normal January.



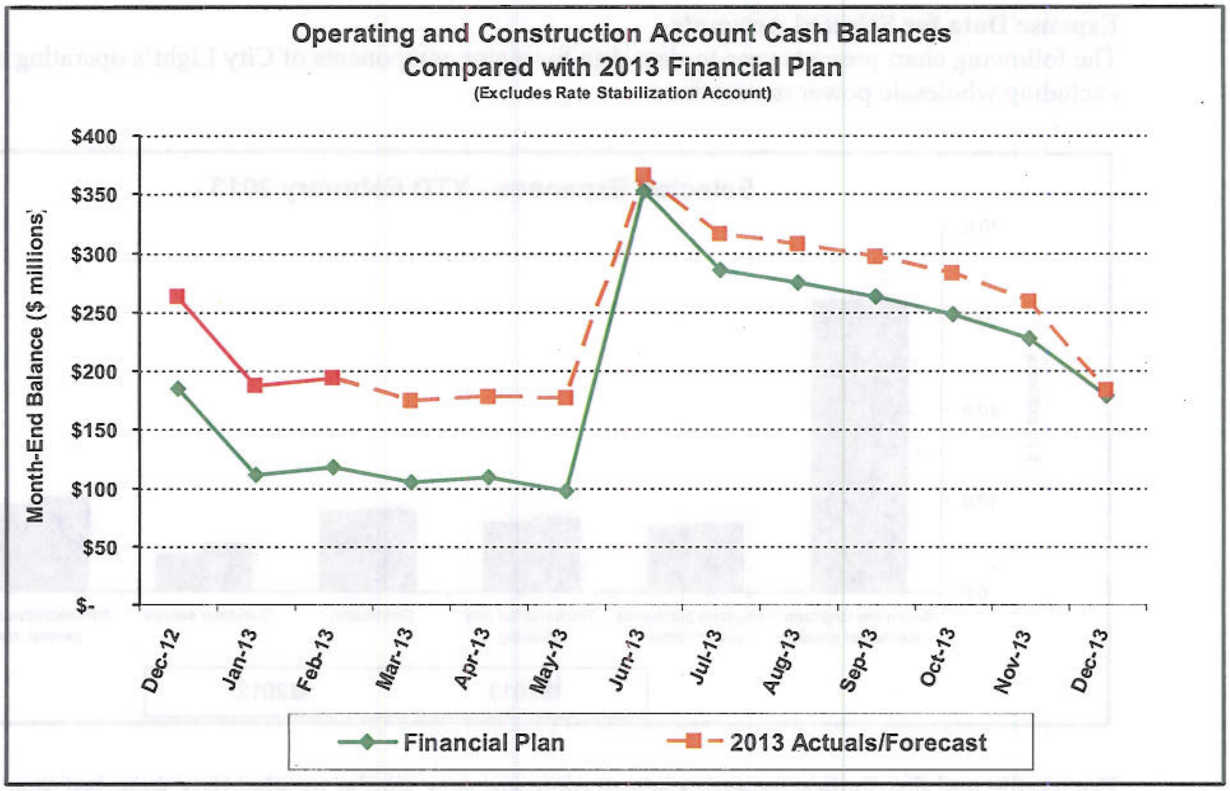
The actual average earned rate per MWh for residential and nonresidential customers is different from what was expected in the 2013 Plan due to slight differences in assumed versus actual patterns of consumption.

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.



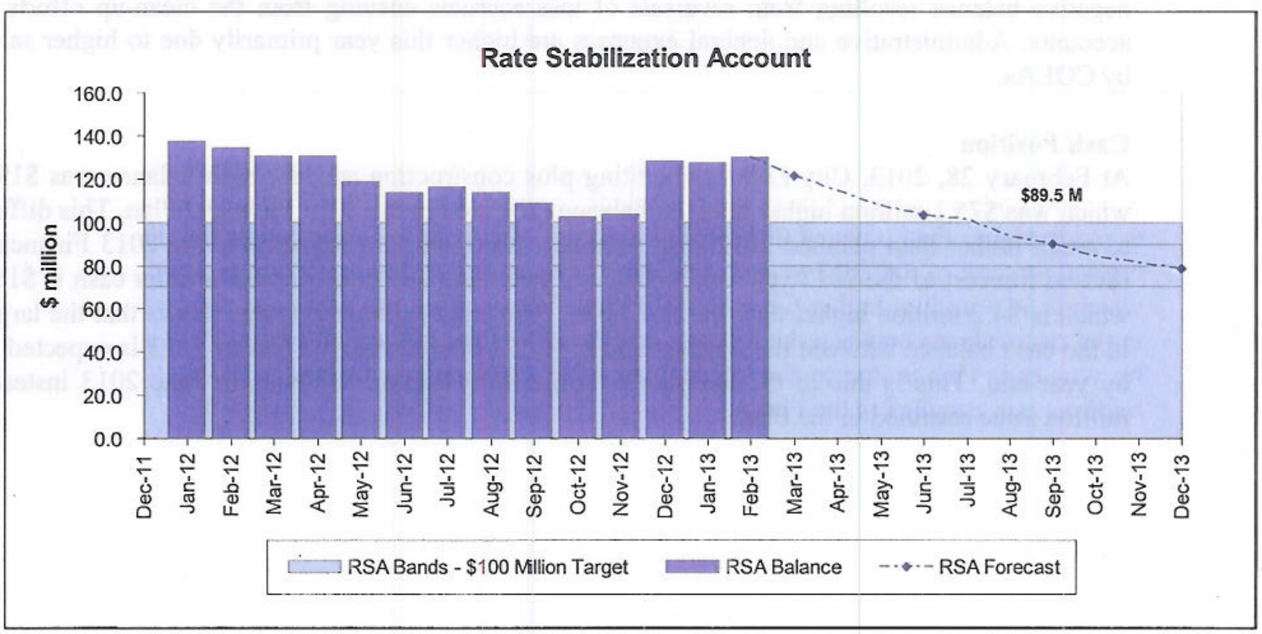
Bonneville and distribution expenses year-to-date are very similar to what they were last year. Year-to-date long-term purchased power expenses are slightly higher primarily due to higher purchases from the Stateline Wind project. Year-to-date transmission expenses are higher than during the same period last year primarily due to an increase in WECC membership dues and higher maintenance expenses. The customer service expenses year-to-date are higher than last year primarily due to higher billing and collection expenses, higher system operating expenses and higher bad debt expense. In 2012 bad debt expense had a high negative balance resulting from reversals of loss accruals ensuing from the clean-up efforts of past due accounts. Administrative and general expenses are higher this year primarily due to higher salaries caused by COLAs.

Cash Position
At February 28, 2013, City Light's operating plus construction account cash balance was $193.4 million, which was $75.1 million higher than the balance projected in the 2013 Financial Plan. This difference is due to much higher than planned 2012 cash balances, which are not reflected in the 2013 Financial Plan. The revised forecast of the 2013 year-end balance of operating and construction account cash is $182.6 million, which is $4.2 million higher than the 2013 Plan. The chart on the next page shows that the large difference in the cash balance between the forecast and the 2013 Plan in the first part of 2013 is expected to disappear by year-end. This is due to the decision to issue $200 million in bonds in June 2013 instead of a $265 million issue assumed in the Plan.



RSA Position

The cash balance in the RSA was $129.6 million as of February 28, 2013. The year-end RSA balance is projected to be $78.7 million. At the end of September 2013, the RSA balance is projected to fall below $90 million to $89.5 million, triggering an RSA surcharge of 1.5% effective November 1, 2013.



2013 Budget

As of February 2013, City Light is projecting that overall it will be within its budget authority through year-end 2013. The Department has spent 27% 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 87% of the 2013 work forecast for the year to date. City Light anticipates that the accomplishment rate will be 90% by year-end.

Debt-to-Capitalization

At February 28, 2013, City Light's debt-to-capitalization ratio was 61.5%, a decrease from 62.5% this time last year and a decrease from 62.8% reported at December 31, 2012. Based on the revised forecast, the 2013 year-end debt-to-capitalization ratio is now expected to be 61.8%, slightly lower than the 2013 Plan because of the lower expected bond issue in June and 2012 actuals that were not included in the Plan.

Compliance with Risk Policies and Standards

Attached for your information is the City Light Risk Oversight Status Report as of March 6, 2013, 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 2013, with 2012 data included for comparison, is attached.

Attachments

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Line No.	Condensed Statements of Revenues and Expenses	Year-to-date			Year Ending December 31, 2013		
1	**Unaudited**	[A]	[B]	[A - B]	[C]	[D]	[C - D]
2	In millions			Actuals to	2013	2013	
3		Actuals	Actuals	Actuals	Revised	Financial	
4		February 28, 2013	February 29, 2012	Variance	Forecast	Plan	Variance
5	**Operating Revenues**						
6	Retail power revenues	$ 132.2	$ 125.8	$ 6.4	$ 714.7	$ 707.2	7.5
7	Short-term wholesale power revenues, net (lines 41 + 44)	16.7	11.9	4.8	61.4	109.3	(48.0)
8	Power-related revenues - other	4.3	2.0	2.3	33.2	35.5	(2.3)
9	Transfers from/(to) rate stabilization account	(1.3)	7.1	(8.4)	49.6	(1.4)	51.0
10	Other revenues	3.7	3.7	-	22.3	22.8	(0.5)
11	Total operating revenues	155.6	150.5	5.1	881.1	873.4	7.8
12	**Operating Expenses**						
13	Generation	3.1	3.9	(0.8)	38.8	39.0	(0.2)
14	Bonneville long-term purchased power	31.9	31.8	0.1	155.9	153.3	2.7
15	Long-term purchased power - other	7.4	7.2	0.2	62.8	65.8	(3.0)
16	Short-term wholesale power purchases	1.6	1.0	0.6	28.0	24.5	3.5
17	Power-related wholesale purchases - other	1.1	-	1.1	7.8	9.6	(1.7)
18	Other power costs	1.5	1.3	0.2	11.6	10.6	1.0
19	Transmission and wheeling	8.1	7.6	0.5	50.1	48.2	1.9
20	Distribution	8.9	8.7	0.2	69.5	69.5	0.0
21	Customer service	5.1	4.0	1.1	42.3	42.6	(0.3)
22	Conservation	2.9	2.9	-	22.5	22.7	(0.2)
23	Administrative and general, net	10.3	9.5	0.8	69.3	73.3	(4.0)
24	Taxes	15.6	14.3	1.3	82.0	81.3	0.6
25	Depreciation and amortization	18.4	15.8	2.6	99.0	97.4	1.6
26	Total operating expenses	115.9	108.0	7.9	739.6	737.8	1.8
27							
28	**Net Operating Income**	**39.7**	**42.5**	**(2.8)**	**141.5**	**135.6**	**5.9**
29							
30	**Other Deductions, Net**						
31	Investment Income	0.7	0.7	-	6.3	7.8	(1.5)
32	Other income (expense), net	0.9	0.6	0.3	6.2	6.3	(0.1)
33	Interest expense	(12.9)	(12.7)	(0.2)	(80.2)	(81.3)	1.1
34	Noncapital grants	(0.1)	-	(0.1)	(0.1)	-	(0.1)
35	Capital contributions	2.5	1.4	1.1	35.6	35.6	0.1
36	Capital grants	0.1	-	0.1	0.9	0.8	0.1
37	Total other deductions, net	(8.8)	(10.0)	1.2	(31.3)	(30.9)	(0.4)
38							
39	***Net Income***	**30.9**	**32.5**	**(1.6)**	**110.2**	**104.7**	**5.6**
40	**Note A:**						
41	Short-term wholesale energy sales, gross	18.4	13.0	5.4	66.5	114.5	(48.0)
42	Short-term wholesale energy purchases	(1.6)	(1.0)	(0.6)	(28.0)	(24.5)	(3.5)
43	**Net ST wholesale sales before booked-out LT purchases**	**16.8**	**12.0**	**4.8**	**38.5**	**90.0**	**(51.5)**
44	Booked-out long term purchases	(1.7)	(1.1)	(0.6)	(5.2)	(5.2)	0.0
45	Net short-term wholesale energy sales	**15.1**	**10.9**	**4.2**	**33.3**	**84.8**	**(51.5)**
46	**Note B:**						
47	Power-related revenues, net (line 8 minus line 17)	3.2	2.0	1.2	25.3	25.9	(0.6)

Net Income Variance Analysis
February 2013

Variance Year-to-Date 2013 Compared to 2012 Actuals: ($1.6) million or (4.9%)

Major components ($ millions):

$32.5	Net Income YTD through February 29, 2012
$6.4	Higher retail revenues due to 4.4% rate increase effective January 1, 2013 and colder than normal January
$4.8	Higher net surplus energy sales
($8.4)	RSA deferred revenues transferred-variance
($2.6)	Higher depreciation and amortization
($1.8)	Other (net)
$30.9	Net Income YTD through February 28, 2013

Variance 2013 Revised Forecast Compared to Financial Plan: $5.6 million or 5.4%

Major components ($ millions):

$104.7	Net Income YTD through December 31, 2013 - Financial Plan
$7.5	Higher retail revenues due to BPA pass-through on October 1, 2013 and colder than normal January
($51.5)	Lower net surplus energy sales than planned
$51.0	Transfer from RSA to offset lower net surplus energy sales
($1.5)	Other (net)
$110.2	Net Income YTD through December 31, 2013 - Revised Forecast

City Light Risk Oversight Status Report
As Of
Wednesday, March 06, 2013

Summary

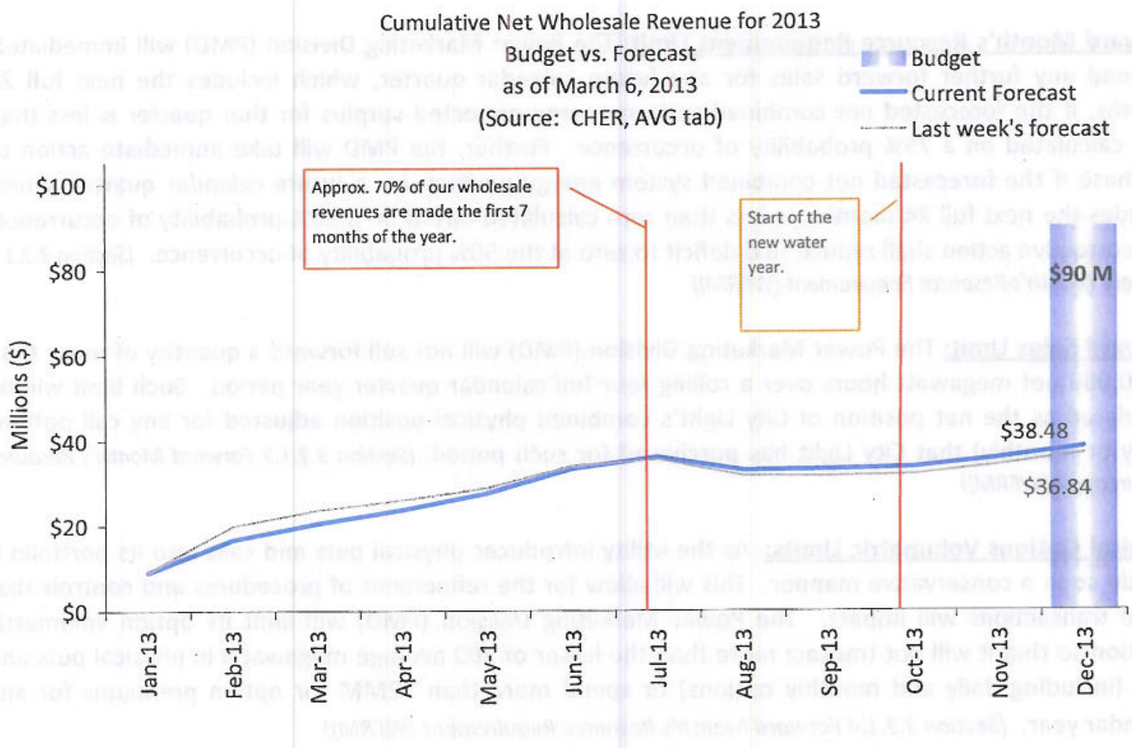
	% of 5 yr Avg	Current '13 Avg	5 Yr Avg
SCL Hydro Generation	86%	951 MW	1,108 MW
Peak Market Prices	87%	$32.81	$37.63

SCL Hydro Generation: The total average generation per hour for Seattle City Light's three major hydroelectric resources (Skagit, Boundary, and BPA Slice) for the 2013 calendar year. This average includes actual generation for past months, and forecasted MW for future months. The 5 year average value is comprised of actuals for years 2008-12.

Peak Market Prices: The average peak market price for the nearest electricity trading hub (Mid-C) for the 2013 calendar year. The 2013 average is comprised of monthly peak forward marks for future months and averaged Dow Jones firm peak index daily prices for past months. The 5 year average is calculated using Dow Jones peak daily prices for years 2008-12.

Wholesale Revenue Variance: Chart 1 below compares the 2013 annual approved NWR budget of $90MM with the latest NWR forecast of $38.48MM. The NWR forecast increased by $1.6MM from the previous forecast of $36.84MM. This change in the NWR is a net result of decrease in Feb actuals of $3.0MM and increase in prices and hydro flows contributing $0.6MM and $4.0MM respectively.

Chart 1



Published Date: 03/12/13

Policy Compliance:

Tail Risk Limit	Prompt Month & Within Month Limit	Forward Month's Resource Requirement Limit	Forward Sales Limit
Compliant	Compliant	Stop Sale	Compliant

**Based on this week's update to hydro forecasts, the expected (75% probability) Forward Month's Resource Requirement has been met for the Q2, Q3 & Q4 2013 period. Per WERM Policy this has triggered a "stop sale" requirement. The Power Management Division has discontinued all planned sells of forward energy for 2013 until further notice. No further action is required.*

Tail Risk: For the current calendar year, the Power Marketing Division (PMD) will conduct its hedging activity to maintain the Utility's position within an $8MM Risk Tolerance Band (RTB) around the calculated 5% Tail Risk metric. For the prompt year (the year immediately following the current calendar year), the Utility's position will remain within a $10MM RTB around the 5% Tail Risk metric. *(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 call 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 any future calendar quarter, which includes the next full 24 months, if the forecasted net combined system energy projected surplus for that quarter is less than zero calculated on a 75% probability of occurrence. Further, the PMD will take immediate action to purchase if the forecasted net combined system energy position for a future calendar quarter, which includes the next full 24 months, is less than zero calculated based on a 50% probability of occurrence. The corrective action shall reduce said deficit to zero at the 50% probability of occurrence. *(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 quarter year period. Such limit will be calculated as the net position of City Light's combined physical position adjusted for any call 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))*

5% Tail Risk Metric, 2013

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.

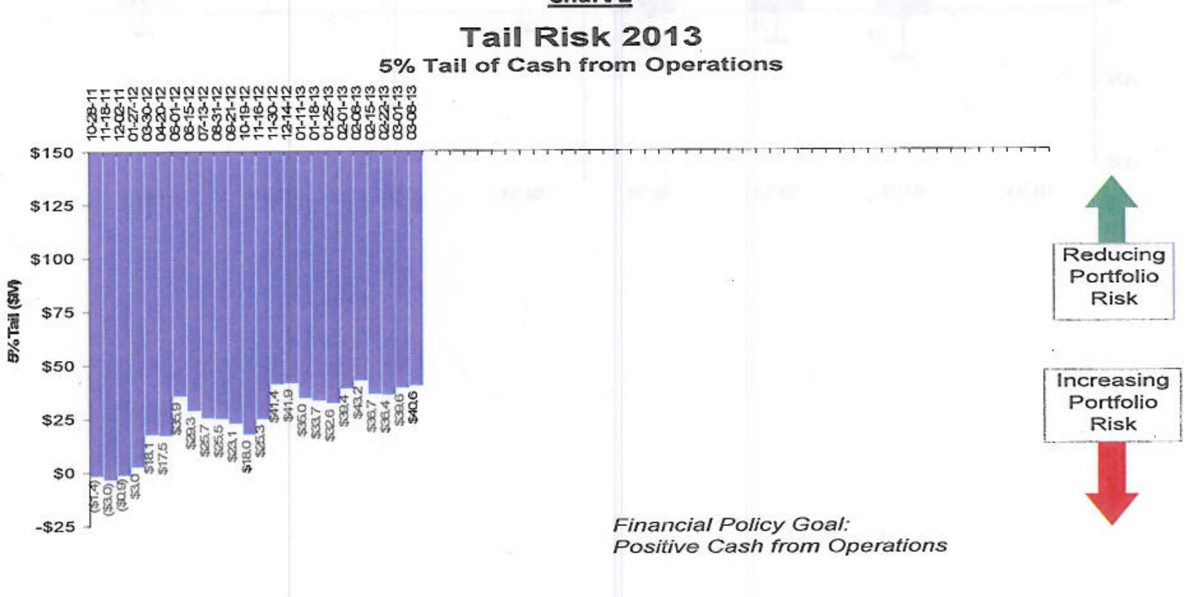
In 2011, the Rate Stabilization Account (RSA) became operational. The RSA is a cash reserve that is used to buffer the Utility from uncertainty in wholesale energy revenue. If the RSA becomes depleted, it is replenished via retail rate surcharges. The RSA significantly mitigates City Light's financial (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). The metric provides an indication as to whether the utility's portfolios include too much or too little surplus resources.

Chart 2 (below) illustrates the 5% Tail Risk metric values for the calendar year 2013. During the course of the year, the 5% Tail Risk metric value has decreased from an initial projection of -$1.4MM to the current projection of a worse case of $40.6MM of Cash from Operations.

Chart 2

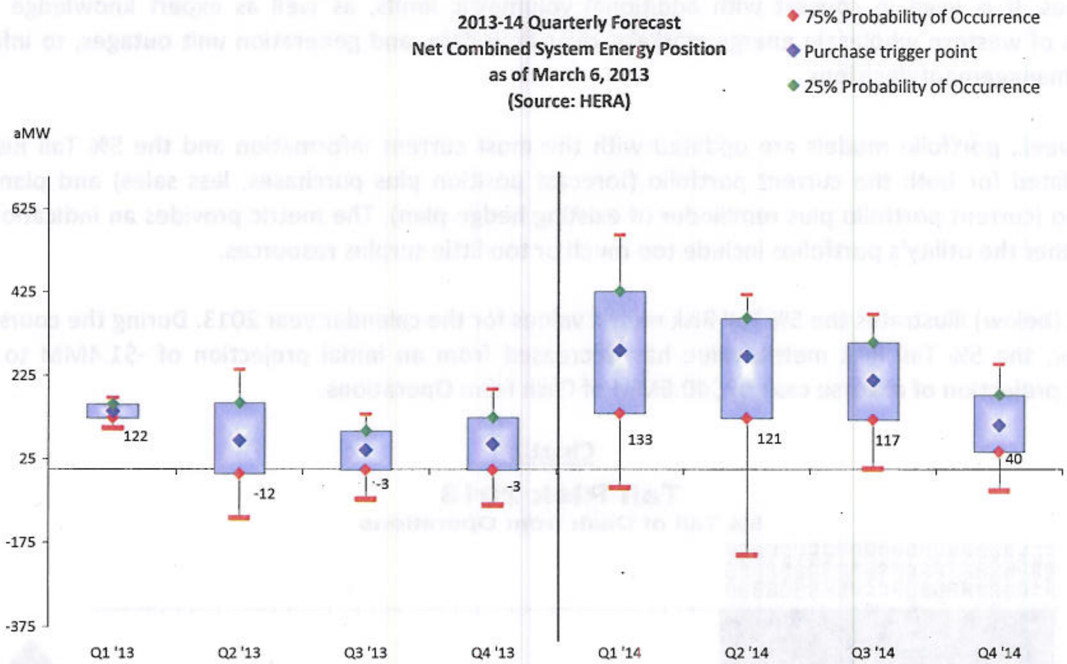


Hedging Plan & Position Status

Hedge Plan 2013, Phase 1 was last proposed and approved by the Risk Oversight Council on December 17, 2012.

Risk Policy Section 3.3.1b was amended by the Chair of the Energy and Environment Committee on March 8, 2010, changing the trigger point for purchasing power in the forward quarter-year periods to the 50th percentile (previously, it was the 25th percentile, or 75% confidence), when, at that level of expectation, the net position is below zero . On April 6, 2011, City Light's contracting authority was approved from 18 months to 24 months. Chart 3 shows the Net Combined System Energy Position for the next 8 quarter, 2 year periods to cover the full amount of City Light's contracting authority. The blue boxes represent the expected net energy position from the 25th to the 75th percentile. The dark blue diamonds inside the boxes represent the 50th percentile (the new purchase trigger). Under the amended rule, if the blue diamond is below zero, City Light must purchase energy to get back above zero.

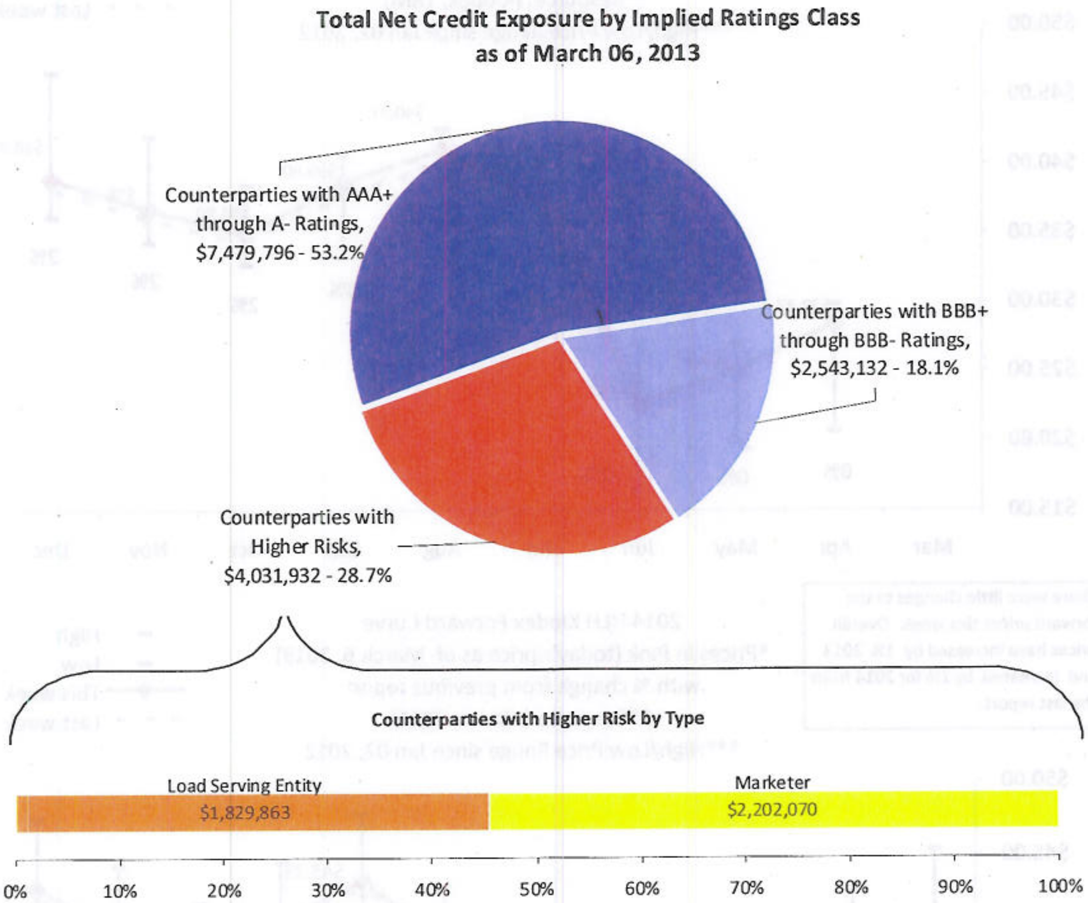
Chart 3



Credit

City Light actively manages its wholesale energy market credit risk by: setting credit limits for each counterparty that are derived from credit scoring models and analysis; securing credit enhancements; monitoring industry news; and by tracking counterparty credit exposures. Beginning in 2009 the Risk Management Division began using an industry standard tool (Moody's KMV) to proactively measure changes in counterparty creditworthiness. This necessitated the use of implied (internal) credit ratings instead of the actual rating agency ratings for Chart 4, below. It is important to note that this represents the assessment of credit risk by the Director of Risk Management. Actual credit ratings by Standard and Poor's and Moody's Investor Services are higher.

Chart 4

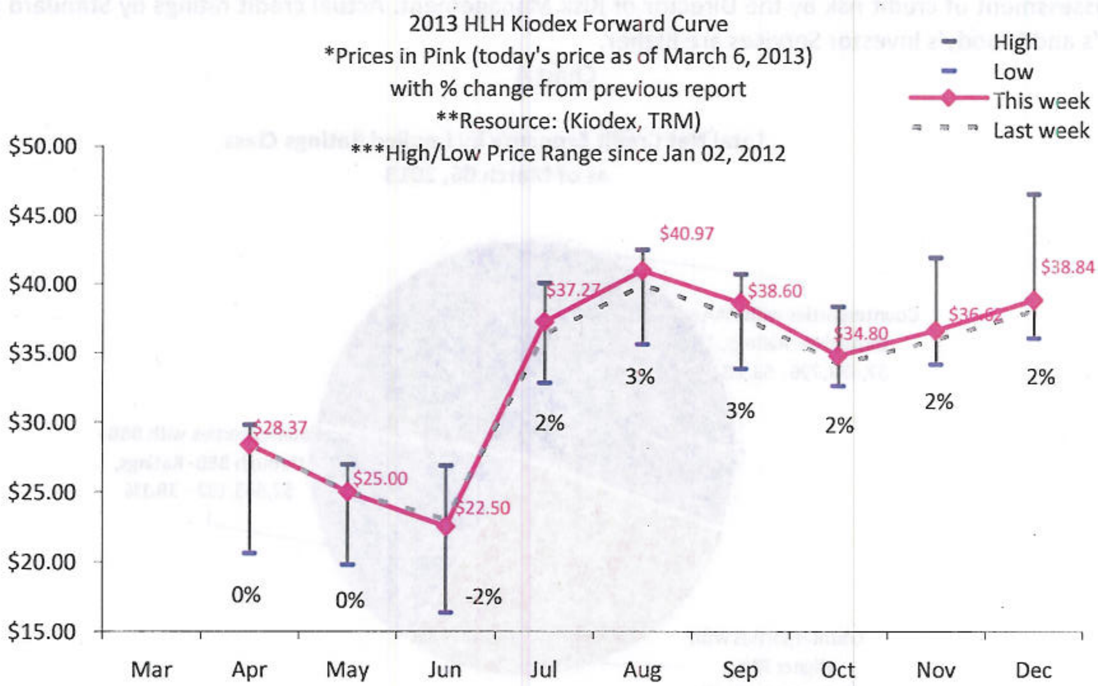


Credit Notes: While there are no major news items this week, Risk and the City's Law Department are in the process of negotiating an acceptable letter of credit with a counterparty who wishes to provide additional credit enhancement in return for more credit capacity for trading.

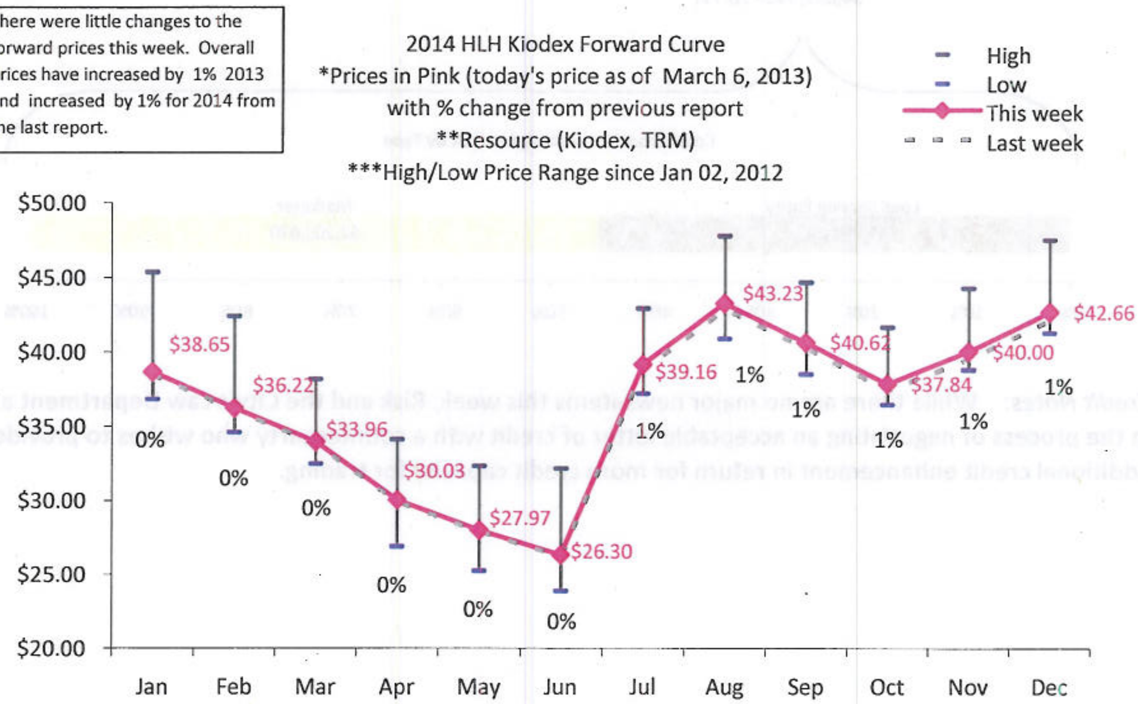
Price

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 2013 and 2014.

Chart 5

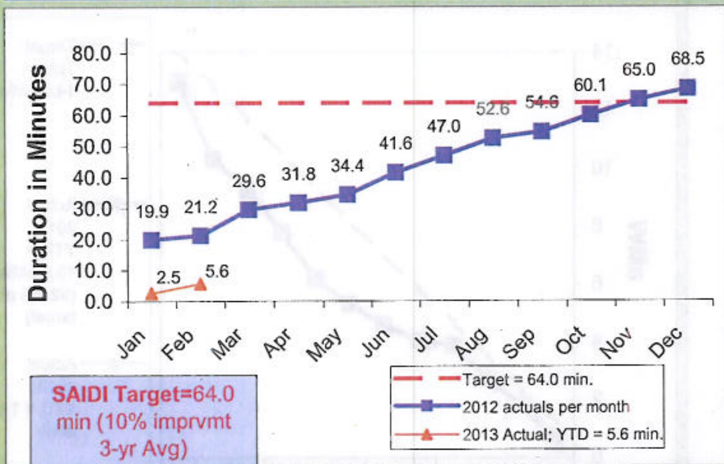


There were little changes to the forward prices this week. Overall prices have increased by 1% 2013 and increased by 1% for 2014 from the last report.

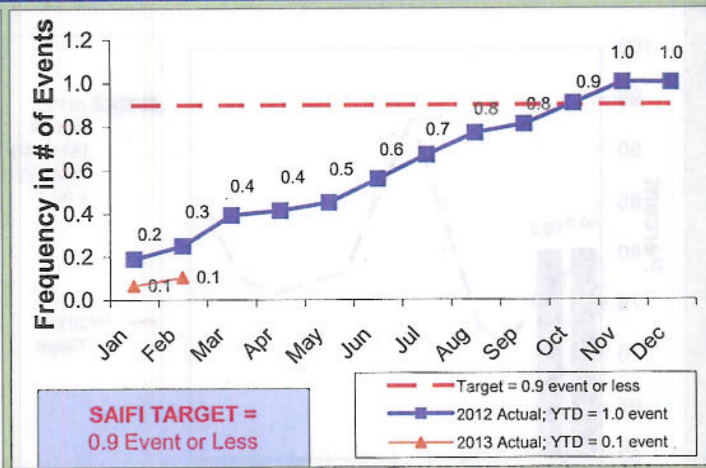


Distribution Operations:

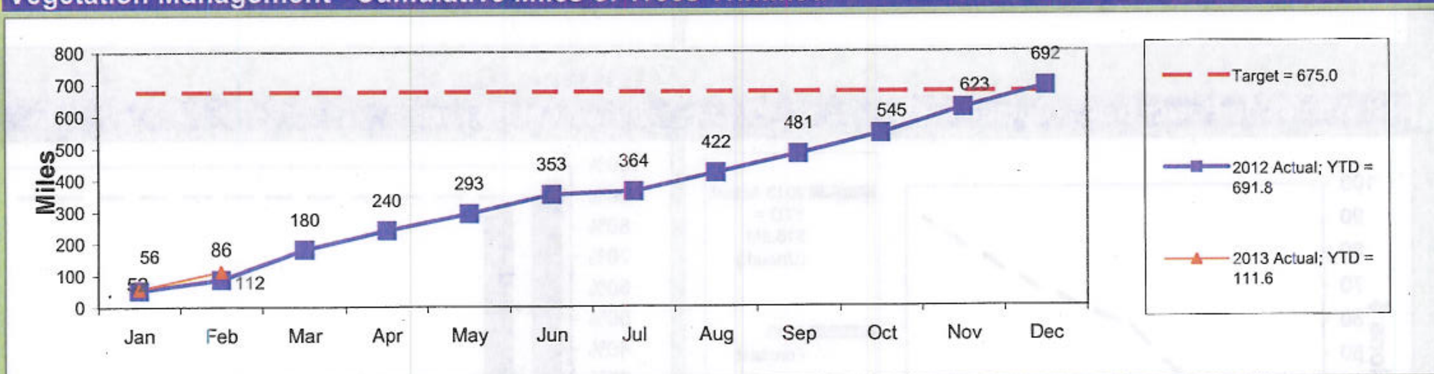
SAIDI - Cumulative



SAIFI - Cumulative

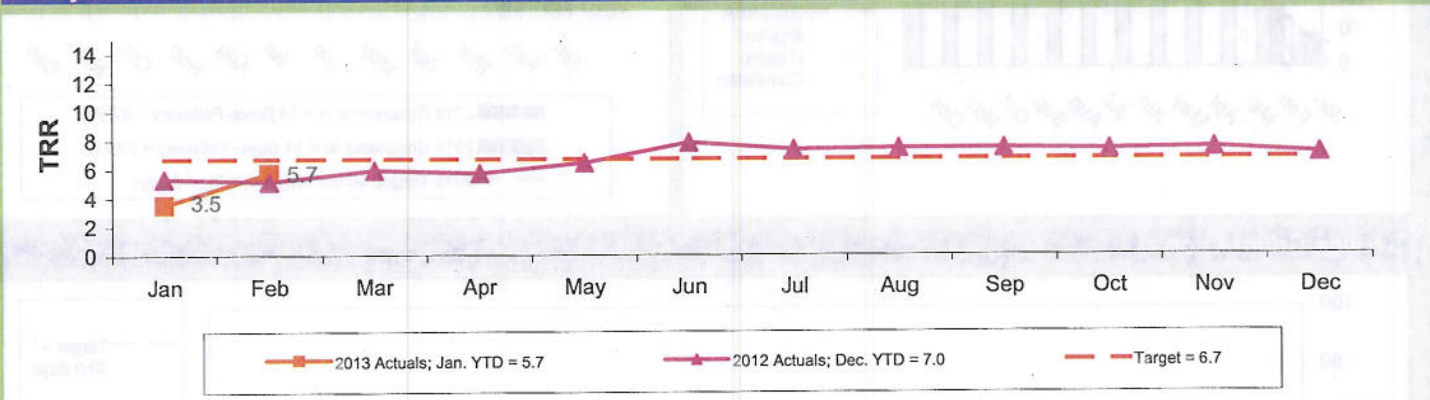


Vegetation Management - Cumulative Miles of Trees Trimmed



Human Resources:

Safety - Total Recordable Incident Rate (TRR) - Cumulative

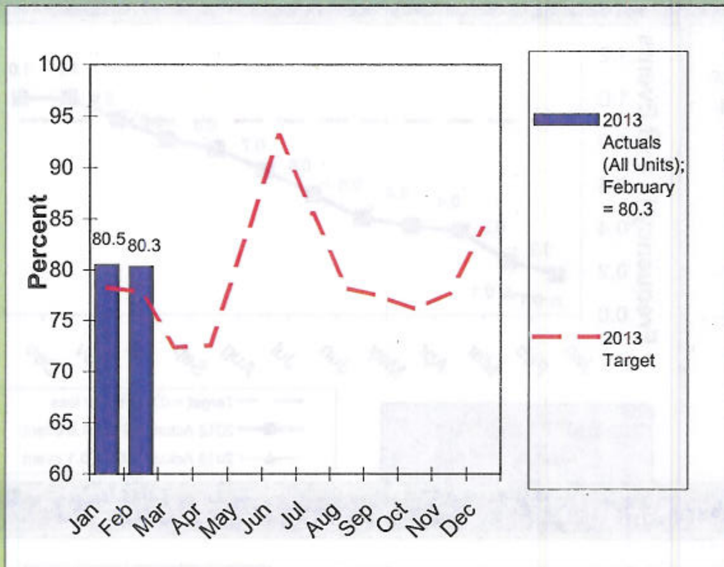


Hiring Statistics YTD

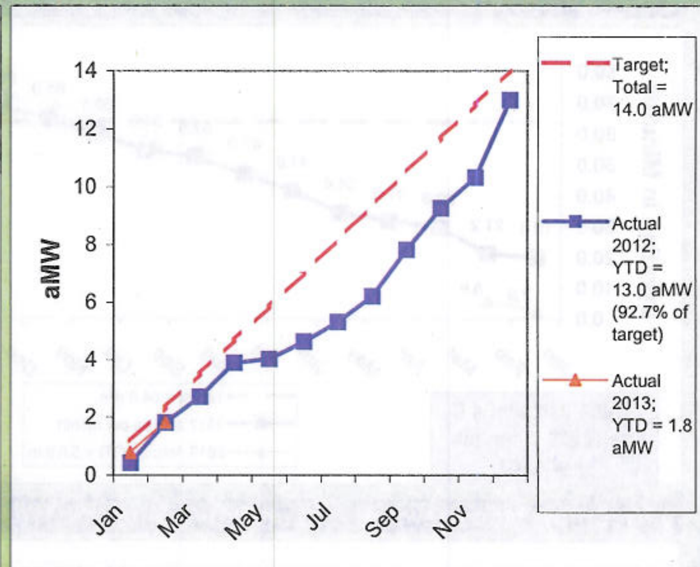
	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Cumulative # of New Hires	12	21	0	0	0	0	0	0	0	0	0	0
Cumulative # of Promotions	4	9	0	0	0	0	0	0	0	0	0	0
Ave. # of Hiring Days	38	47	0	0	0	0	0	0	0	0	0	0
Cumulative # of Attrition	4	14	0	0	0	0	0	0	0	0	0	0
Vacancy Rate Mo. End	7.8%	7.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Power Resources:

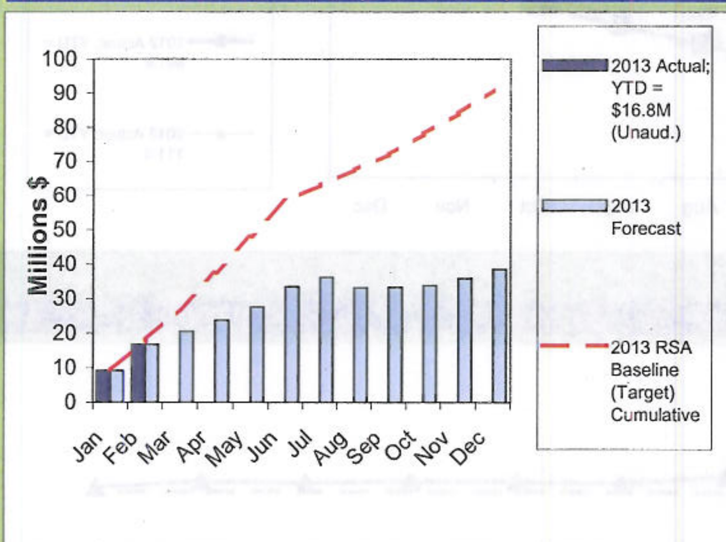
Generator Availability-All Units (Actuals %)



Conservation Savings (Cumulative)

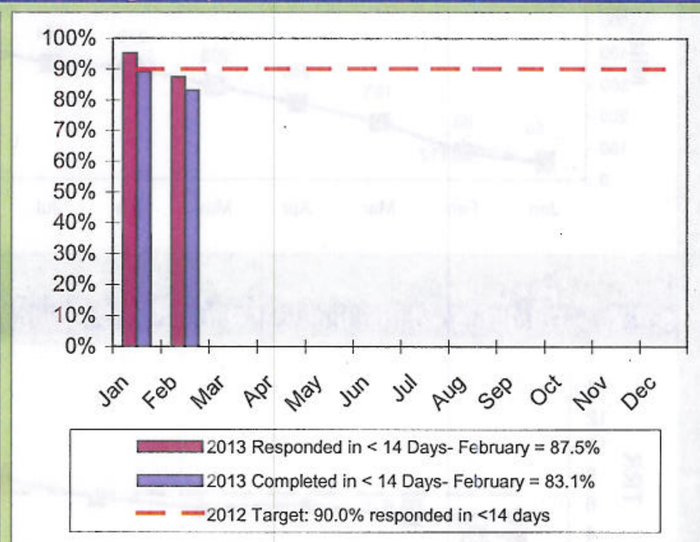


Net Wholesale Power Sales (Cumulative)



Customer Care:

Streetlight Repairs



Service Connections