



DATE: August 21, 2014

TO: Mayor Ed Murray
Seattle City Council

FROM: Jorge Carrasco *Jorge Carrasco*

SUBJECT: Financial Update – July 2014

This memo provides an analysis of Seattle City Light's financial condition and operating results through July 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

July 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⁾	\$ 440.4	\$ 429.9	\$ 405.3	\$ 754.0	\$ 742.5	\$ (5.8)
Net Wholesale Energy Sales ⁽²⁾	\$ 59.5	\$ 64.5	\$ 43.0	\$ 85.0	\$ 79.8	\$ (9.6)
Net Power O&M	\$ (155.3)	\$ (150.5)	\$ (141.6)	\$ (265.0)	\$ (259.9)	\$ 4.6
Net Non-Power O&M	\$ (121.1)	\$ (115.3)	\$ (106.8)	\$ (222.5)	\$ (215.7)	\$ 2.3
RSA Transfers, Net ⁽³⁾	\$ (2.2)	\$ (7.8)	\$ 19.7	\$ (2.7)	\$ 3.6	\$ 9.4
Taxes, Depreciation & Other	\$ (140.3)	\$ (134.9)	\$ (131.6)	\$ (228.8)	\$ (226.6)	\$ 5.6
Net Income	\$ 81.0	\$ 85.9	\$ 88.0	\$ 120.0	\$ 123.7	\$ 6.5
Operating Cash	\$ 215.2	\$ 131.0	\$ 173.2	\$ 248.5	\$ 76.4	\$ (30.1)
Construction Account - Restricted	\$ 140.6	\$ -	\$ 171.2	\$ -	\$ 93.8	\$ 43.5
Rate Stabilization Account	\$ 112.2	\$ 117.8	\$ 108.6	\$ 112.6	\$ 106.4	\$ (9.4)
Bond Reserve	\$ 59.8	\$ 47.1	\$ 36.7	\$ 69.8	\$ 57.0	\$ (10.0)
Other Restricted Assets	\$ 48.9	\$ 52.2	\$ 51.6	\$ 11.9	\$ 13.1	\$ 0.7
Total Cash	\$ 576.8	\$ 348.1	\$ 541.4	\$ 442.9	\$ 346.7	\$ (5.3)
Debt Coverage Ratio	n/a	n/a	n/a	1.9	1.9	0.0
Debt to Capitalization Ratio	61.8%	59.0%	62.6%	60.9%	60.3%	0.0%

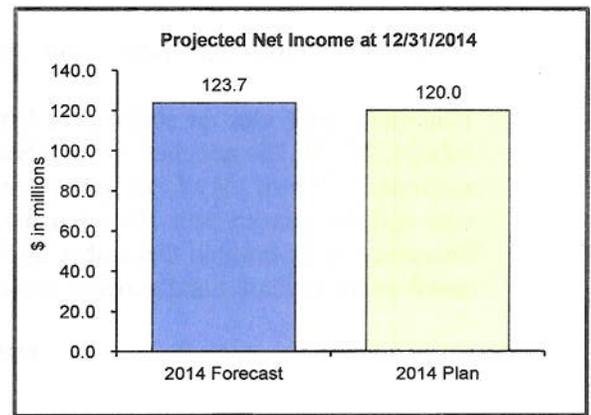
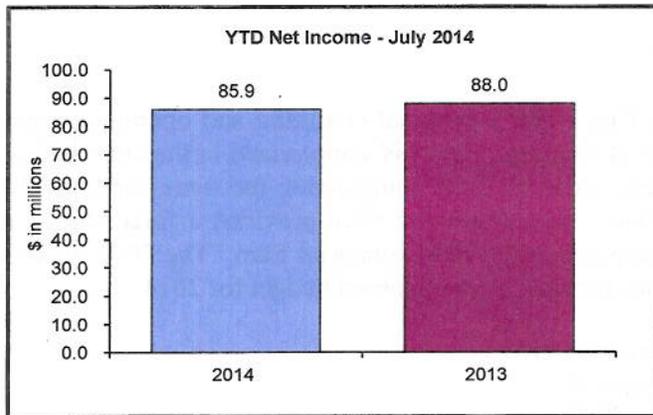
(1) Retail power revenues include revenues such as Green Power Program and power factor charges.

(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 2013

As indicated in the table on the previous page and in the charts below, net income for the period ending July 31, 2014 was \$85.9 million, which is \$2.1 million or 2.4% lower compared to the same time period in 2013. This decrease is primarily due to higher O&M expenses, which is partially offset by 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.

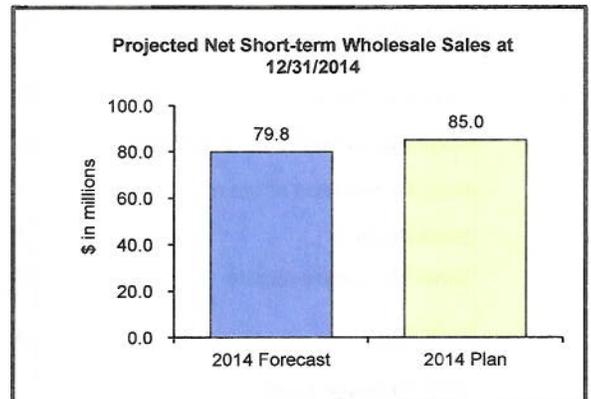
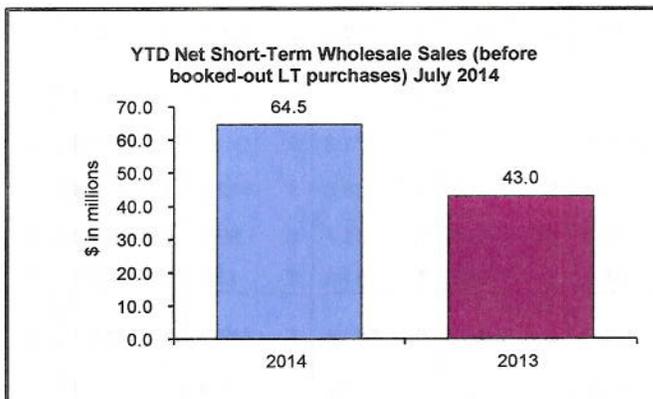


Projected Year-end Net Income, Relative to Plan

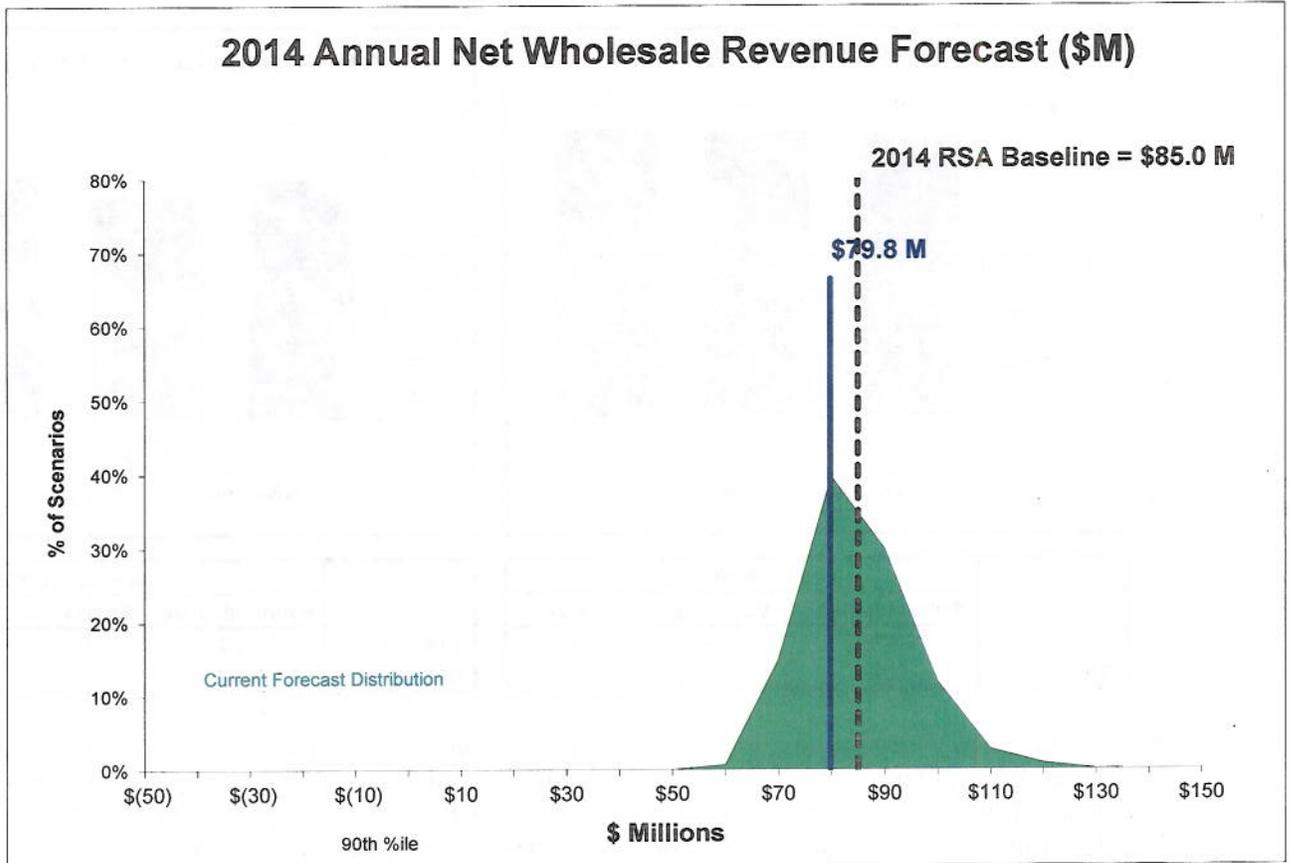
Projected net income at year-end, 2014 is expected to be \$123.7 million, which is \$3.7 million or 3.1% higher than Planned. The primary drivers of this difference are:

- Lower Non-power O&M expenses due in part to lower than planned distribution station expenses and lower than planned tree trimming expenses.
- Higher Net Power revenues partly due to higher fair valuation of seasonal exchanges.
- Lower interest accruals resulting from postponing the bond issue from June to November.
- Offset by lower retail revenue due to lower than planned residential consumption.
- Offset by lower in-kind CIAC due to an updated and more conservative forecast based on YTD actuals.

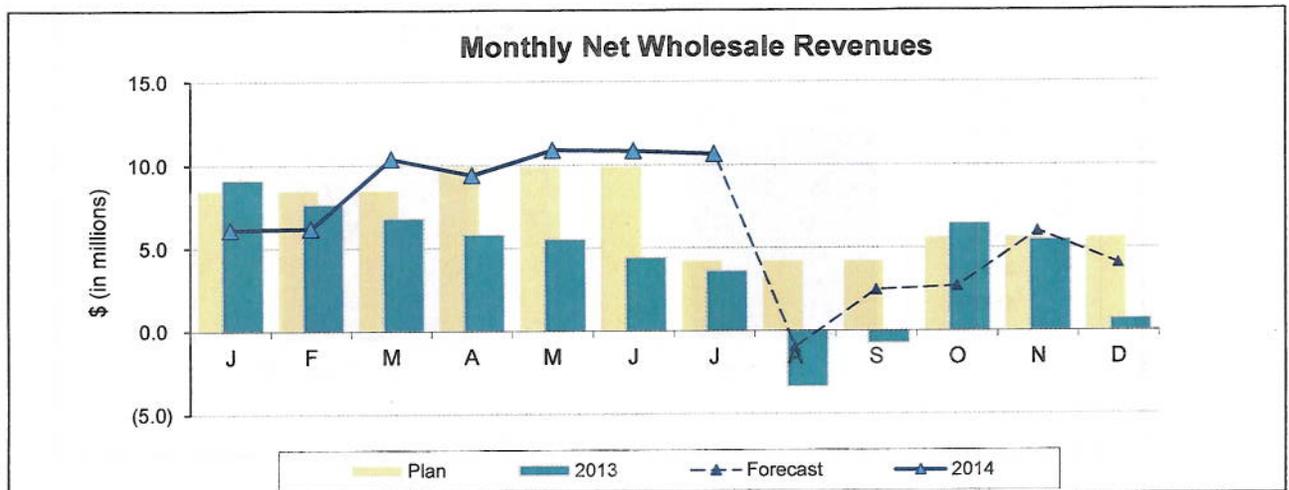
Net Short-Term Wholesale Energy



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 \$79.8 million, which is \$5.2 million or 6.1% lower than the 2014 RSA Baseline.

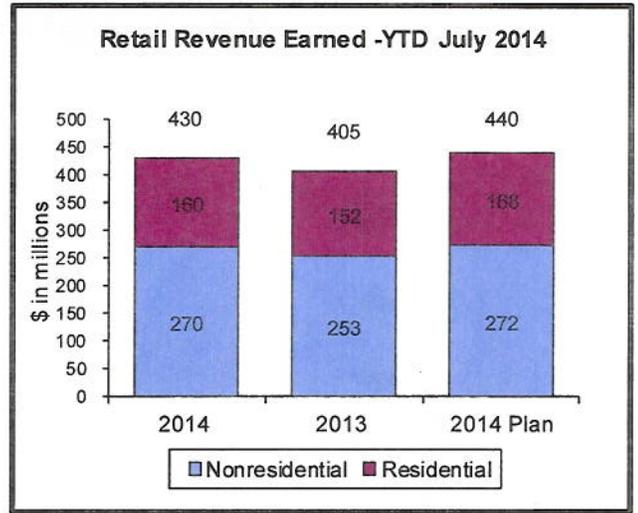
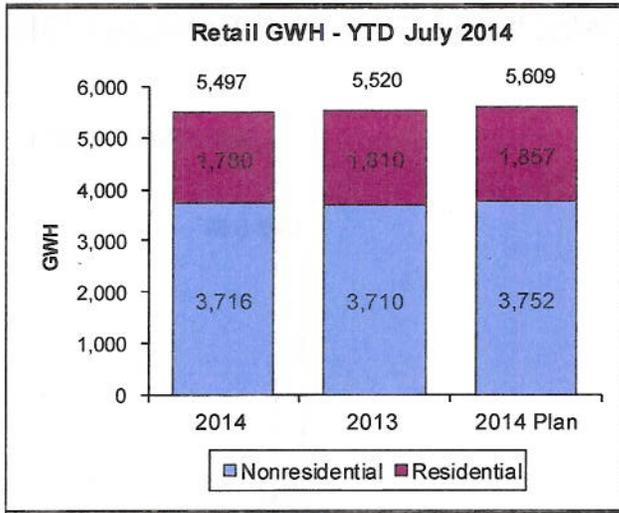


In July 2014 net wholesale revenues were \$10.7 million. July wholesale revenue was \$7 million higher than in July 2013 due to significantly higher hydro volumes.



Retail Power Revenues

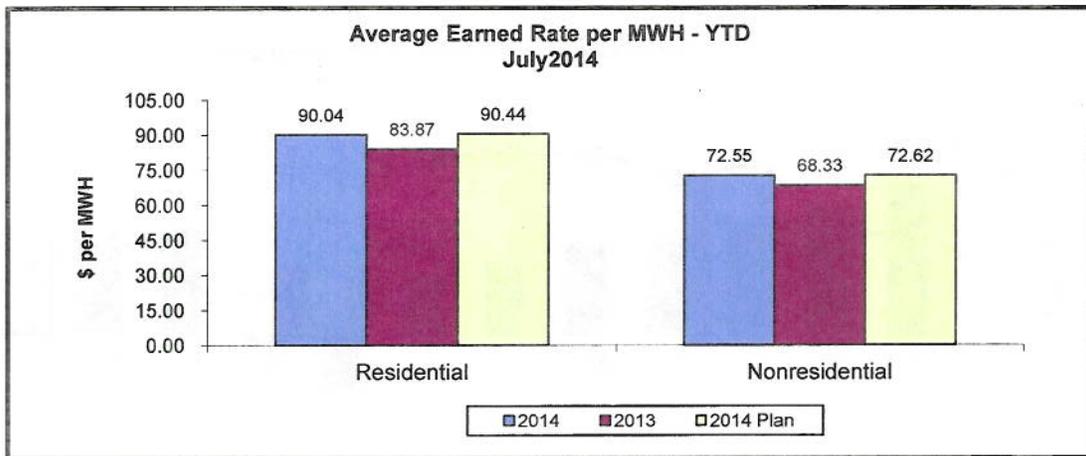
The charts that follow present selected data on year-to-date retail power revenues.



	Retail MWh YTD		
	Nonresidential	Residential	Total
2014 vs 2013	0.2%	-1.7%	-0.4%
2014 vs Plan	-1.0%	-4.1%	-2.0%

	Retail Revenue YTD		
	Nonresidential	Residential	Total
2014 vs 2013	6.4%	5.6%	6.1%
2014 vs Plan	-1.0%	-4.6%	-2.4%

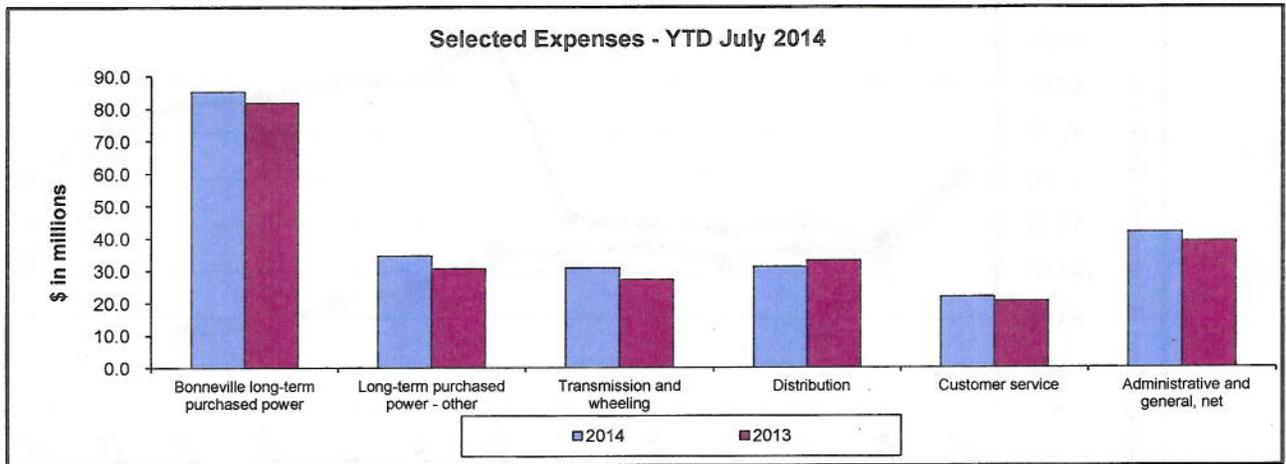
Year-to-date energy consumption is lower than the 2014 Plan for Residential Customers, largely as a result of warmer than normal weather (less heating load). In total, year to-date energy consumption for non-residential customers is 1% below Plan. However, load from the boring machine for the Alaska Way Viaduct project has been significantly lower than planned, reducing YTD non-residential load by around 1.8%. This means that retail sales from other non-residential customers is around 0.8% above Plan. Overall year-to-date retail revenues are \$24.6 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

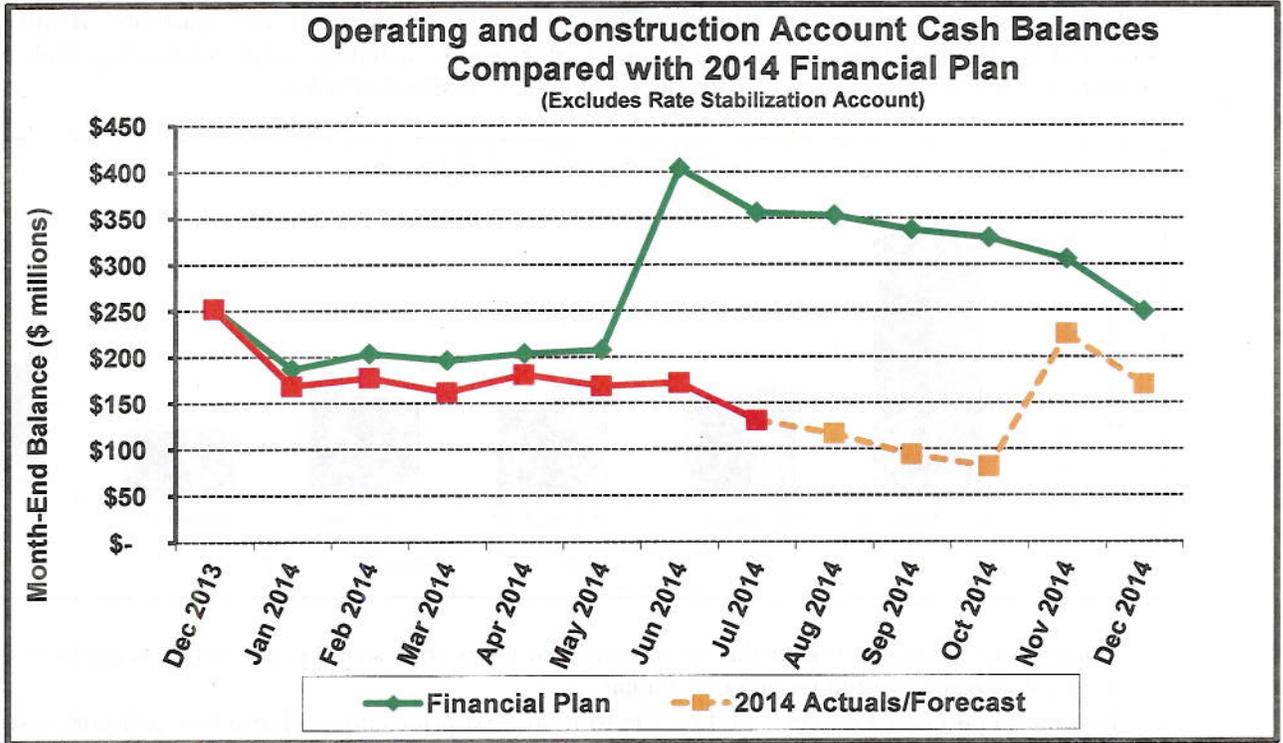
The following chart presents year-to-date data for major components of City Light’s operating expenses excluding wholesale power transactions. These year-to-date expenses can fluctuate month to month compared to the previous year for a number of reasons including work scheduling and accounting adjustments.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



- Bonneville expenses – higher due to an increased block load shaping rate which is partially offset by a larger slice true up credit recorded in January.
- Long-term purchased power – higher due to increased prices and volume for cash purchases and fair value recording of energy exchanges as well as a lower amount of booked out long term purchases.
- Transmission and wheeling expenses - higher due to higher BPA wheeling charges as a result of higher transmission rates.
- Distribution costs - slightly lower due in part to lower substation and street lighting expenses. Station crews are also more focused on CIP than in 2013. In addition, in 2013 a portion of a capital project was expensed that has not recurred in 2014. Tree trimming expenses are lower due to a new and more favorable vendor contract.
- Customer service expenses – higher due to increased temporary staffing for both low-income outreach and meter reading as well as higher customer contract expenses due to increased service connections.
- Administrative and general expenses - 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.

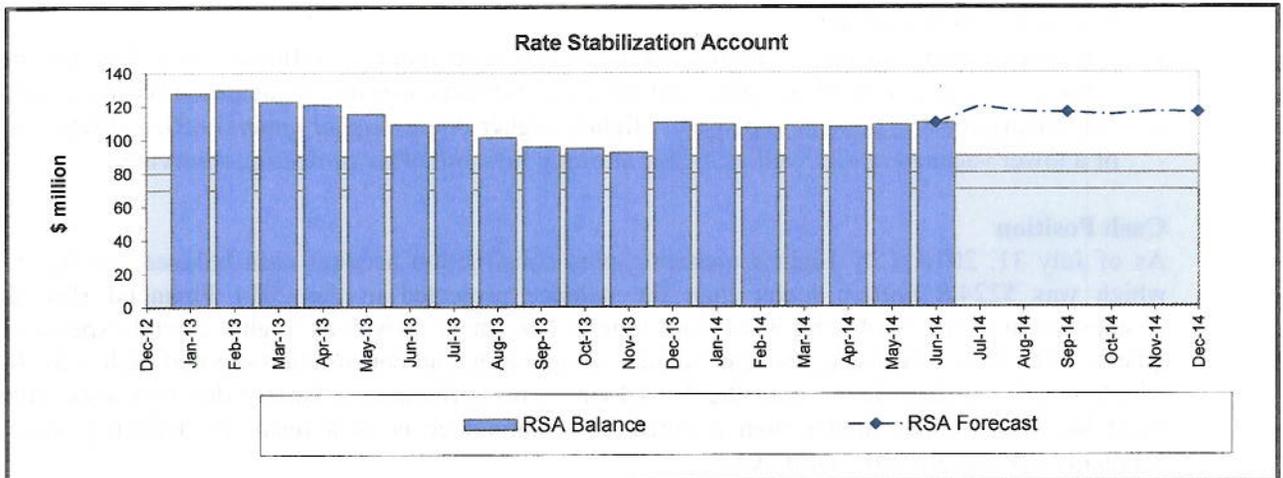
Cash Position

As of July 31, 2014, City Light’s operating plus construction account cash balance was \$131.0 million, which was \$224.8 million lower than the balance projected in the 2014 Financial Plan due to the postponement of the 2014 bond issue from June to November as well as higher capital expenses in the first quarter. The 2014 forecasted year-end balance of operating and construction account cash is \$170.2 million, which is \$78.3 million lower than the 2014 Plan. This difference is largely due to a lower than planned bond issue as well as higher than planned 2014 capital costs as a result of deferring some spending originally planned for 2013 until 2014.



RSA Position

The cash balance in the RSA was \$117.8 million as of July 31, 2014. The year-end RSA balance is projected to be \$106.4 million. A surcharge is currently not forecasted for 2014.



2014 Budget

As of July 2015, City Light is projecting that overall it will be within its budget authority through year-end 2014. The Department has spent 59% of the overall O&M budget (O&M budget includes Non-Power O&M expenses, Purchased Power, Taxes and Debt Service) through July. At this point in the year we would normally expect to have spent 58% of the annual budget, but carry forward encumbrances overstate the spending in the 1st half of the year. City Light's spending on the Capital program through July is approximately 83% of the 2014 year to date forecast. City Light anticipates that the accomplishment rate will be 89% by year-end.

Debt-to-Capitalization

As of July 31, 2014, City Light's debt-to-capitalization ratio was 59.0%, a decrease from 62.6% 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 60.3%, 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 August 6, 2014, 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 July 2014, with 2013 data included for comparison, is attached.

Attachments

Line No.	Condensed Statements of Revenues, Expenses and Changes in Net Position	Year-to-date			Year Ending December 31, 2014		
		[A] Actuals July 31, 2014	[B] Actuals July 31, 2013	[A - B] Actuals to Actuals Variance	[C] 2014 Revised Forecast	[D] 2014 Financial Plan	[C - D] Variance
1	Unaudited						
2	In millions						
3							
4	Operating Revenues						
5	Retail power revenues	\$ 429.9	\$ 405.3	\$ 24.6	\$ 742.5	\$ 754.0	\$ (11.4)
6	Short-term wholesale power revenues, net (lines 40 + 43)	64.9	43.3	21.6	90.9	105.2	(14.3)
7	Power-related revenues - other	22.9	20.1	2.8	48.9	44.8	4.0
8	Transfers from/(to) rate stabilization account	(7.8)	19.7	(27.5)	3.6	(2.7)	6.3
9	Other revenues	11.9	14.0	(2.1)	22.6	24.3	(1.7)
10	Total operating revenues	521.8	502.4	19.4	908.4	925.6	(17.1)
11	Operating Expenses						
12	Generation	18.9	16.6	2.3	40.3	43.4	(3.1)
13	Bonneville long-term purchased power	85.2	81.8	3.4	155.7	155.7	0.0
14	Long-term purchased power - other	34.6	30.7	3.9	62.0	65.2	(3.2)
15	Short-term wholesale power purchases	5.7	6.8	(1.1)	17.7	25.2	(7.5)
16	Power-related wholesale purchases - other	10.1	8.4	1.7	17.3	17.5	(0.1)
17	Other power costs	7.4	7.0	0.4	12.8	11.5	1.4
18	Transmission and wheeling	30.8	27.3	3.5	54.2	55.0	(0.8)
19	Distribution	31.1	33.1	(2.0)	59.3	64.7	(5.4)
20	Customer service	21.9	20.5	1.4	39.7	42.1	(2.4)
21	Conservation	13.5	11.6	1.9	24.6	23.9	0.7
22	Administrative and general, net	41.8	39.0	2.8	74.5	72.7	1.8
23	Taxes	49.9	47.7	2.2	84.6	86.3	(1.6)
24	Depreciation and amortization	62.0	59.1	2.9	107.1	108.0	(0.9)
25	Total operating expenses	412.9	389.6	23.3	749.9	771.1	(21.2)
26							
27	Net Operating Income	108.9	112.8	(3.9)	158.6	154.5	4.1
28							
29	Other Deductions, Net						
30	Investment Income	5.8	(0.8)	6.6	7.9	6.5	1.5
31	Other income (expense), net	3.9	5.2	(1.3)	6.4	5.8	0.7
32	Interest expense	(45.4)	(45.7)	0.3	(78.8)	(85.8)	7.0
33	Noncapital grants	0.5	0.5	-	4.3	4.0	0.3
34	Capital contributions	11.5	14.9	(3.4)	24.5	34.1	(9.6)
35	Capital grants	0.7	1.1	(0.4)	0.8	1.0	(0.2)
36	Total other deductions, net	(23.0)	(24.8)	1.8	(34.8)	(34.5)	(0.3)
37							
38	Change in Net Position	\$ 85.9	\$ 88.0	\$ (2.1)	\$ 123.7	\$ 120.0	\$ 3.7
39	Note A:						
40	Short-term wholesale energy sales, gross	70.2	49.8	20.4	97.5	110.2	(12.6)
41	Short-term wholesale energy purchases	(5.7)	(6.8)	1.1	(17.7)	(25.2)	7.5
42	Net ST wholesale sales before booked-out LT purchases	64.5	43.0	21.5	79.8	85.0	(5.2)
43	Booked-out long term purchases	(5.3)	(6.5)	1.2	(6.7)	(5.0)	(1.7)
44	Net short-term wholesale energy sales	59.2	36.5	22.7	73.1	80.0	(6.9)
45	Note B:						
46	Power-related revenues, net (line 7 minus line 16)	12.8	11.7	1.1	31.5	27.4	4.2

**Net Income Variance Analysis
July 2014**

Variance Year-to-Date 2014 Compared to 2013 Actuals: (\$2.1) million or (2.4%)

Major components (\$ in millions):

\$88.0	Net Income YTD through July 31, 2013
\$24.6	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
\$21.5	Higher net surplus energy sales
(\$27.5)	Lower transfers from rate stabilization account year-to-date due to higher net wholesale revenues than projected
(\$2.3)	Higher generation due to higher maintenance of Gorge dam and other structures and equipment
(\$3.9)	Higher long term energy purchases due to increased volume and market prices combined with lower book-outs
(\$3.5)	Higher BPA wheeling and transmission as a result of higher transmission rates in 2014
(\$2.8)	Higher administrative and general, net, due primarily to increases in salaries and hiring
(\$2.2)	Higher public utility and city occupation taxes due to higher revenues
\$6.6	Higher investment income due to gains in fair market value of cash pool investments y-t-d
(\$3.4)	Lower large customer construction and in-kind CIAC
(\$9.2)	Other (net)
\$85.9	Net Income YTD through July 31, 2014

Variance 2014 Revised Forecast Compared to Financial Plan: \$3.7 million or 3.1%

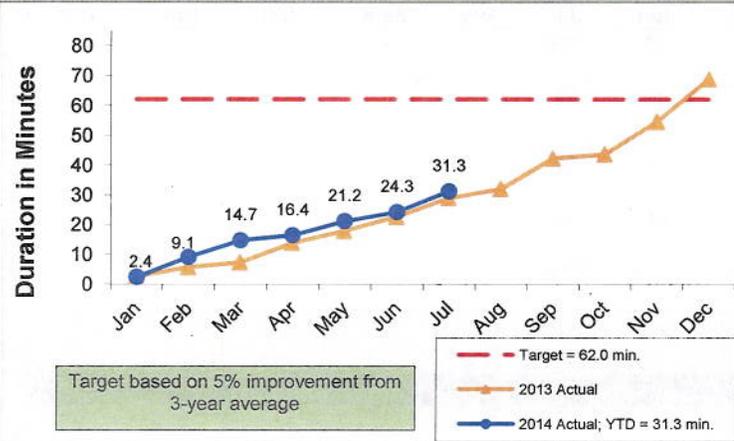
Major components (\$ in millions):

\$120.0	Net Income through December 31, 2014 - Financial Plan
\$3.2	Lower long-term purchased power expenses
\$5.4	Lower distribution expenses
\$7.0	Lower estimated interest expense
(\$1.8)	Higher administrative and general, net
(\$9.2)	Lower noncapital and capital grants, and capital contributions
(\$0.9)	Other (net)
\$123.7	Net Income through December 31, 2014 - Revised Forecast

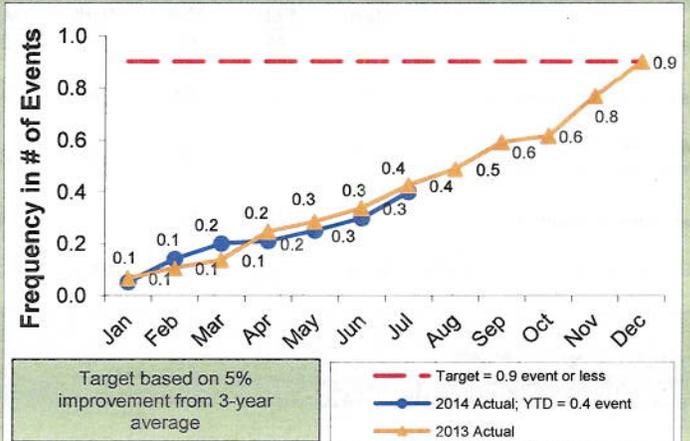


Distribution Operations:

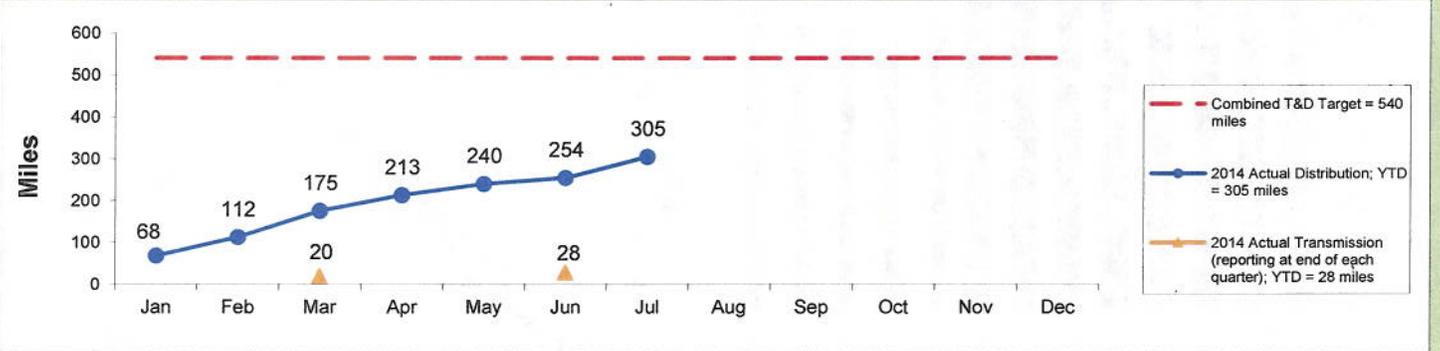
SAIDI - Cumulative



SAIFI - Cumulative

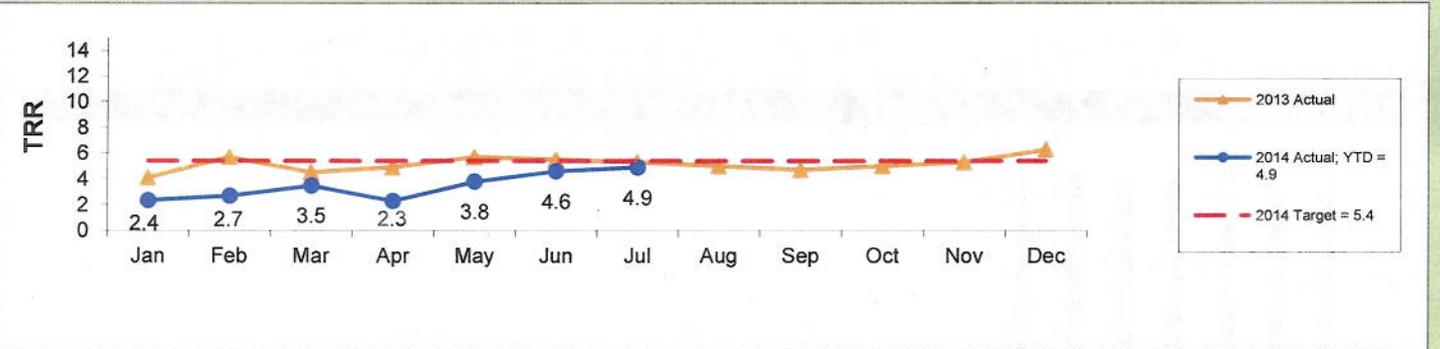


Vegetation Management - Cumulative Miles of Trees Trimmed

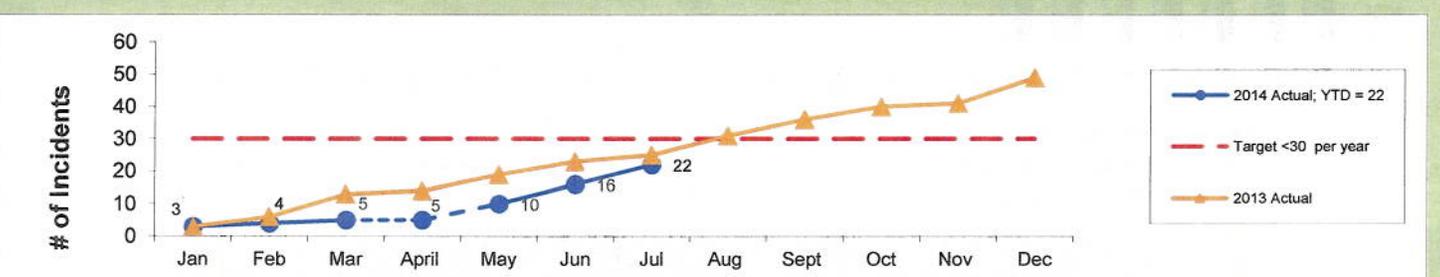


Human Resources:

Safety - Total Recordable Incident Rate (TRR) - Cumulative



Safety - Preventable Vehicle Incidents (Cumulative)



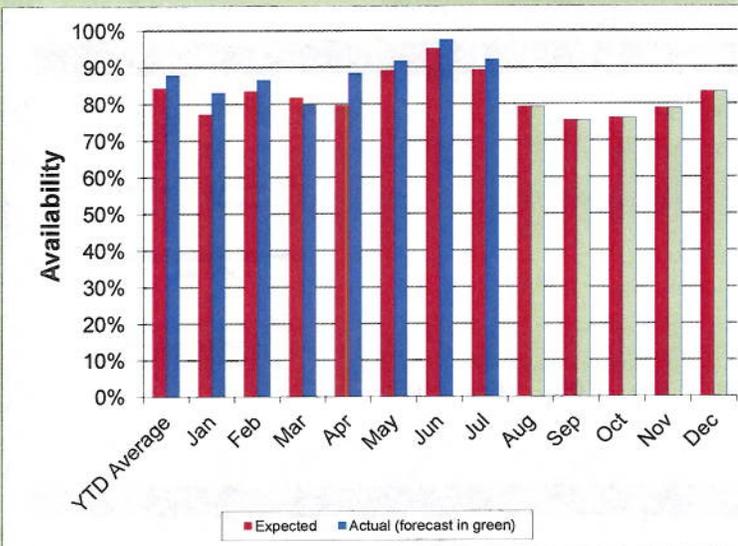
Human Resources:

Hiring Statistics YTD

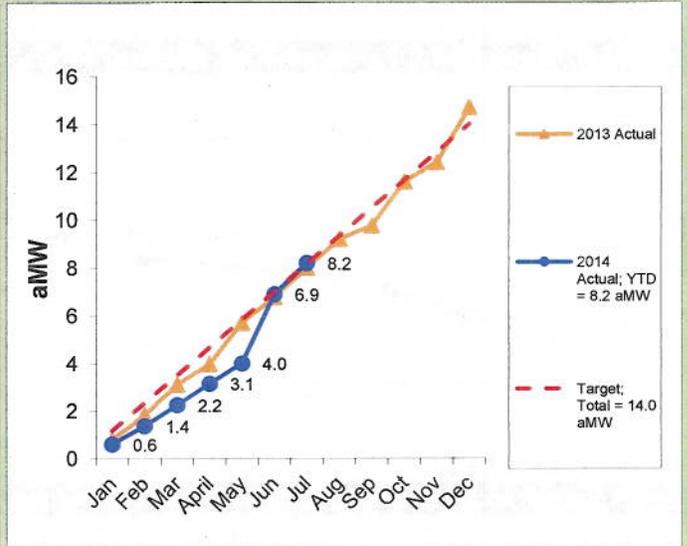
	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Cumulative # of New Hires	9	26	51	71	87	98	112					
Cumulative # of Promotions	5	9	18	26	38	44	55					
Avg. # Hiring Days for Regular Processes (Goal=45 days)	19	26	18	22	22	22	22					
Cumulative # of Attrition	12	22	34	44	54	65	71					
Vacancy Rate Mo. End (Goal=4.0%)	7.6%	7.0%	6.7%	6.5%	6.2%	6.1%	5.6%					

Power Resources:

Generator Availability-All Units (Actuals %)

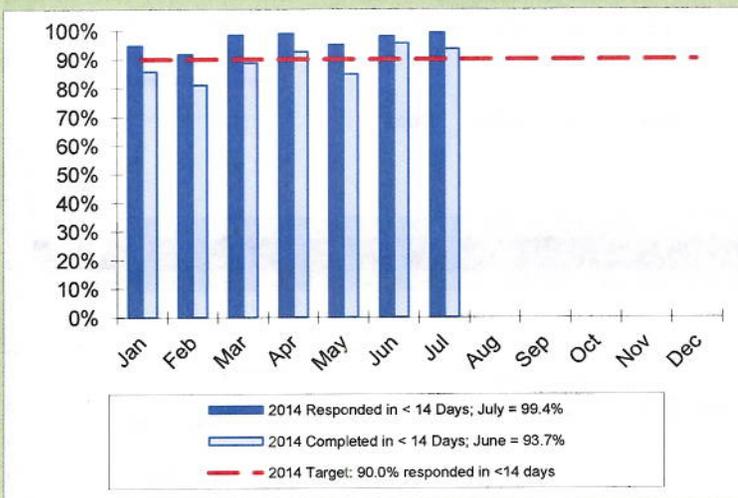


Conservation Savings (Cumulative)

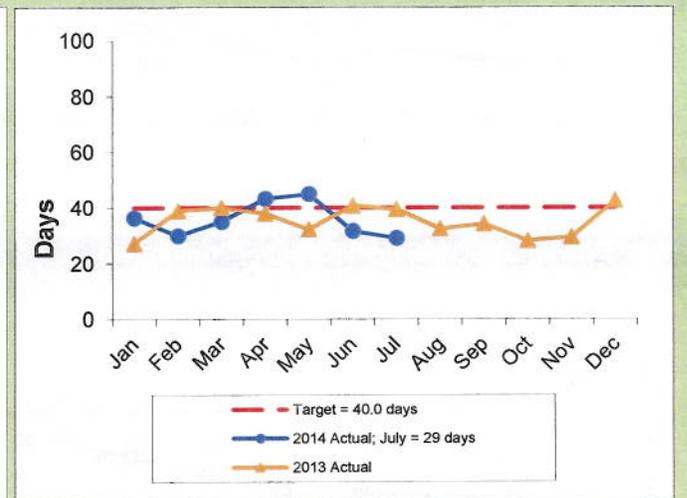


Customer Care:

Streetlight Repairs



Service Connections





Seattle City Light

Risk Oversight Status Report

As of August 06, 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	\$41.08	128%

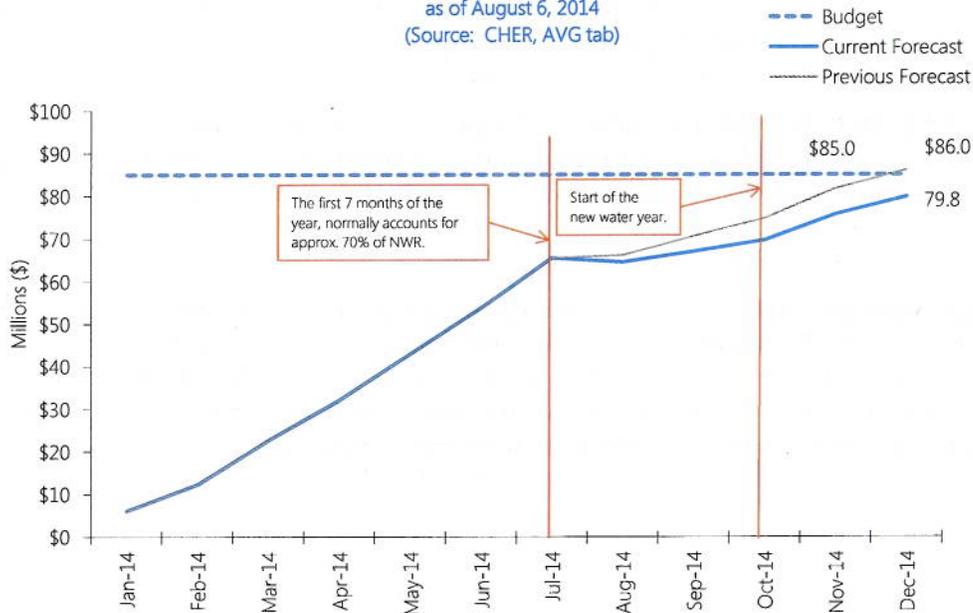
SCL Hydro Generation: This shows the total average generation per hour for Seattle City Light’s three major hydroelectric resources (Skagit, Boundary, and BPA Slice). For the 2014 calendar year this average includes actual generation for past months and forecasted MW for future months. The 5 year average 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 \$79.8 MM. The NWR forecast decreased by \$6.2MM from the previous forecast of \$86.0 MM. The decrease is the result of decline in September to December resources accounting for \$1.9 MM, decline in prices, accounting for \$2.7 MM and decline in August revenues for \$1.6MM.

Chart 1

Cumulative Net Wholesale Revenue for 2014
Budget vs. Forecast
as of August 6, 2014
(Source: CHER, AVG tab)



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

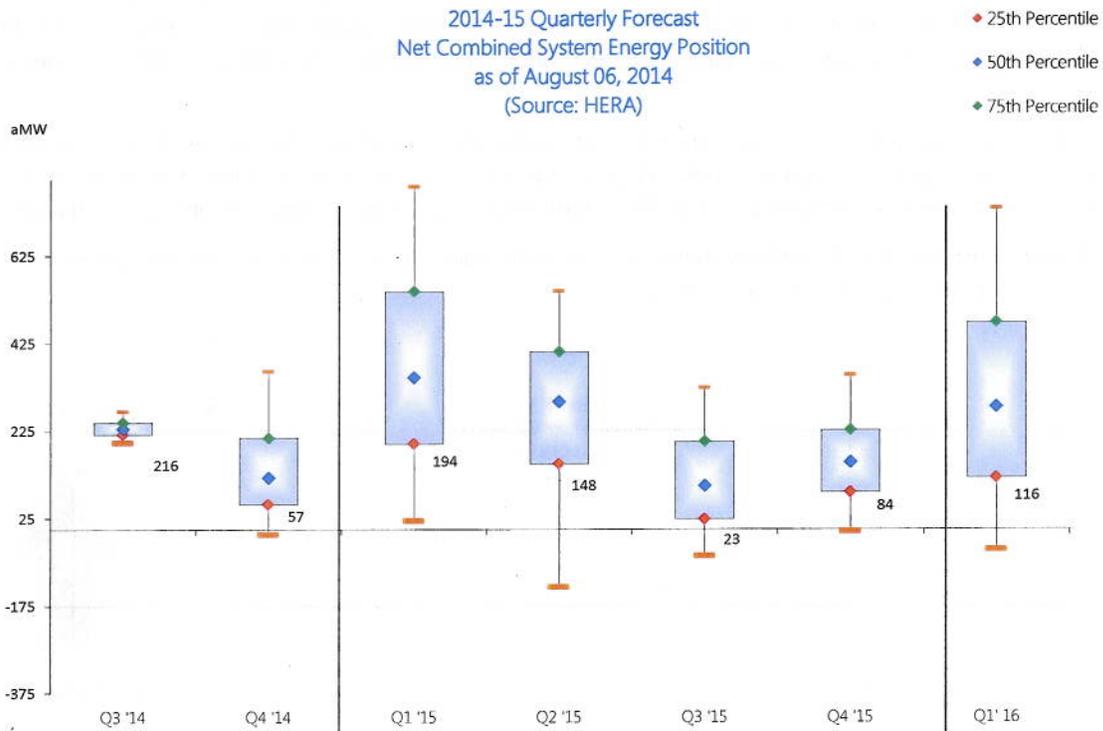
Hedge Plan 2014, Phase 3 was last proposed and approved by the Risk Oversight Council on March 25, 2014.

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

2014-15 Quarterly Forecast
 Net Combined System Energy Position
 as of August 06, 2014
 (Source: HERA)



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.

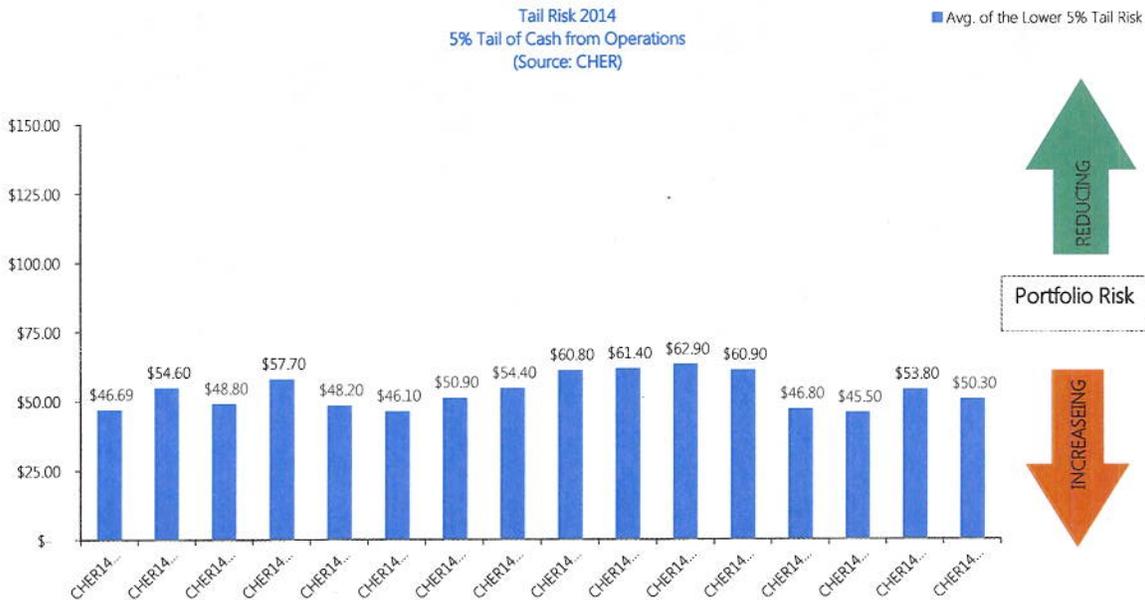
In 2011, the Rate Stabilization Account (RSA) became operational. The RSA is a cash reserve that is used to buffer the Utility from uncertainty in wholesale energy revenue. If the RSA becomes depleted, it is replenished via retail rate surcharges. The RSA significantly mitigates City Light’s financial (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 \$53.80MM.

Chart 3





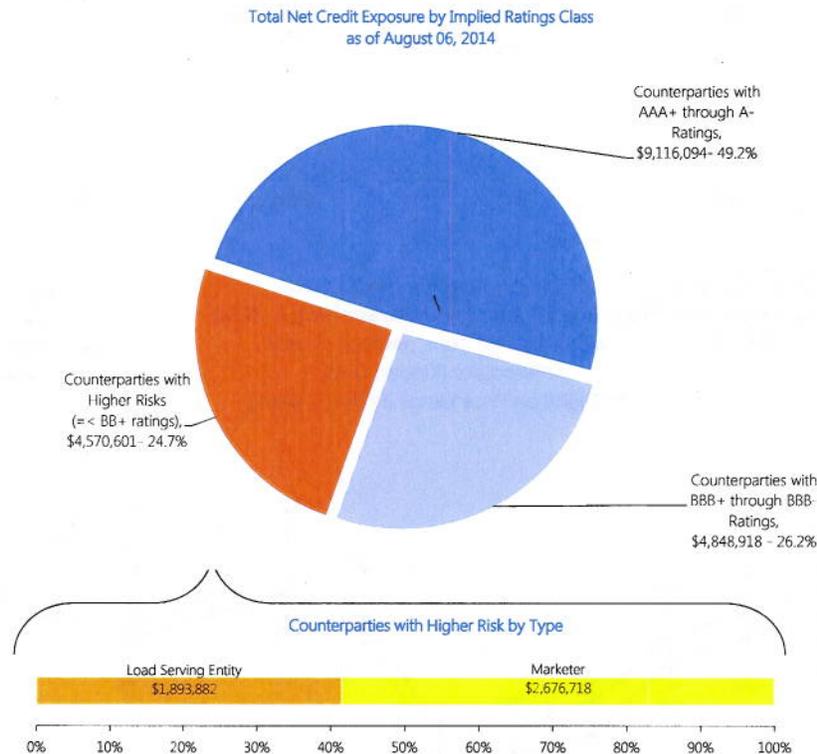
Credit

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

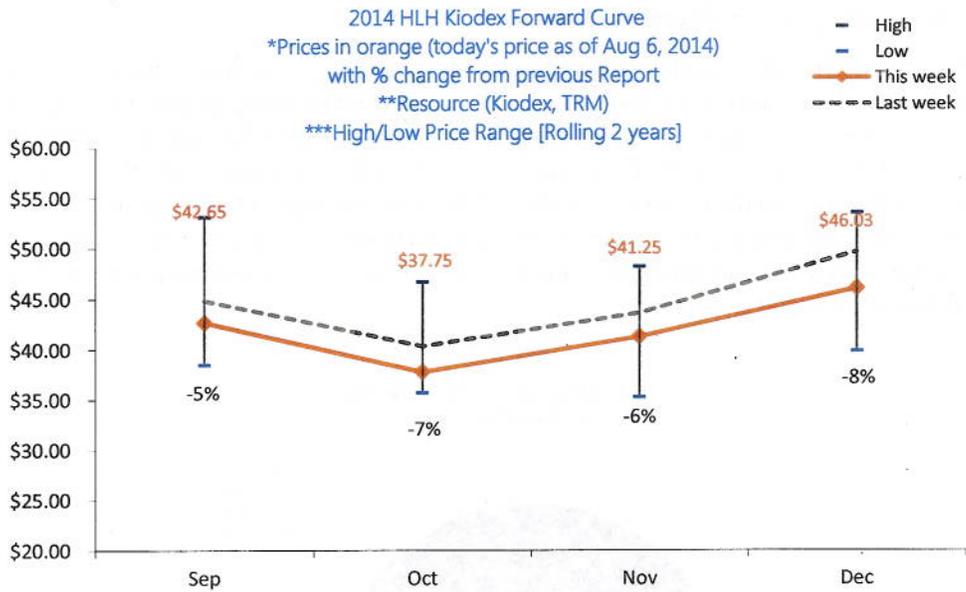


Credit Notes: Risk Oversight negotiated and received a \$2 million dollar letter of credit from a higher risk counterparty to provide additional trading liquidity for Power Marketing

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 6% for remainder of 2014 and by 6% for 2015.

