



FINANCIAL POLICIES

Review Panel Meeting

May 27, 2015

AGENDA

- What are financial polices?
- Background and current City Light policies
- Are current policies meeting City Light's needs?
- Discussion: policy options

FINANCIAL POLICIES 101

- Financial policies are official rules and metrics (set by Council Resolution) that guide financial decision making.
 - Setting rates
 - Capital budgeting, funding strategy and cost recovery timing
 - Size and timing of bond issues (debt management)
- Good financial policies ensure financial health
 - Ensure the financial integrity of the utility: liquidity, strong credit rating, access to low-cost capital.
 - Provide cost savings and stable rates for customers.
 - Equitable allocation of capital costs between current and future customers.

BRIEF HISTORY OF CITY LIGHT FINANCIAL POLICY

	2001*	2005	2010
Volatility Management	95% probability of positive cash from operations	95% probability of positive cash from operations	(RSA)
Debt Service Coverage	1.8x	2.0x	1.8x
Debt Policy	"High degree of confidence" of cash contribution to CIP	60% debt-to-cap ratio by 2010	Fund CIP 40% with cash from operations
Liquidity & Reserves	Minimum \$30M cash, contingency reserve \$25M.	Minimum \$30M cash, contingency reserve \$25M.	(RSA + rely on City Cash Pool)

**did not actually go into effect until July 2004, when all short-term debt accumulated during the Energy Crisis was repaid, and operating account reached \$30 million.*

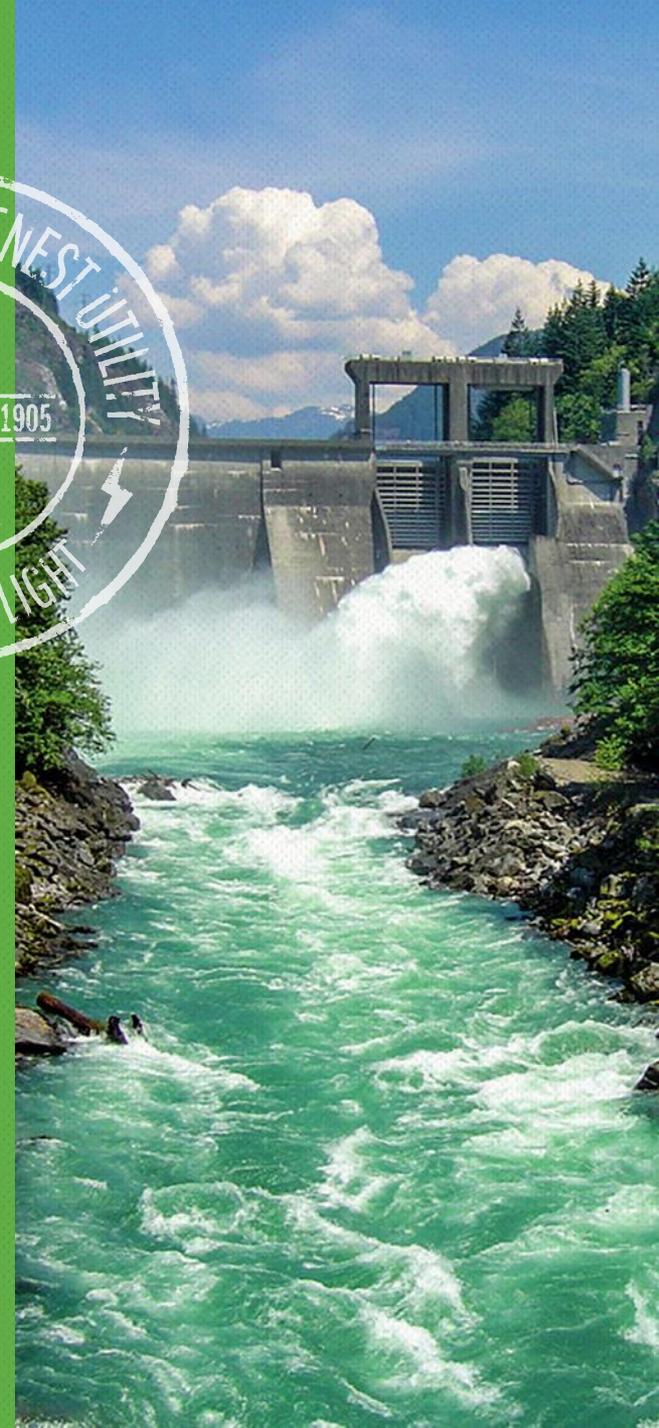
CURRENT FINANCIAL POLICIES (EST. 2010)

1. Rate setting: 1.8x debt service coverage target
 - Provides high level of certainty that the Utility will be able to make debt payments.
 2. CIP: Six-year CIP funded 40% with cash from operations
 - Drives how much capital spending is debt financed, and directly drives debt-to-capitalization
- + Rate Stabilization Account (RSA)
 - + BPA Pass-through
 - + City cash pool: \$1.6 billion for short-term loans

**Financial policies
are
complementary
and
interrelated**

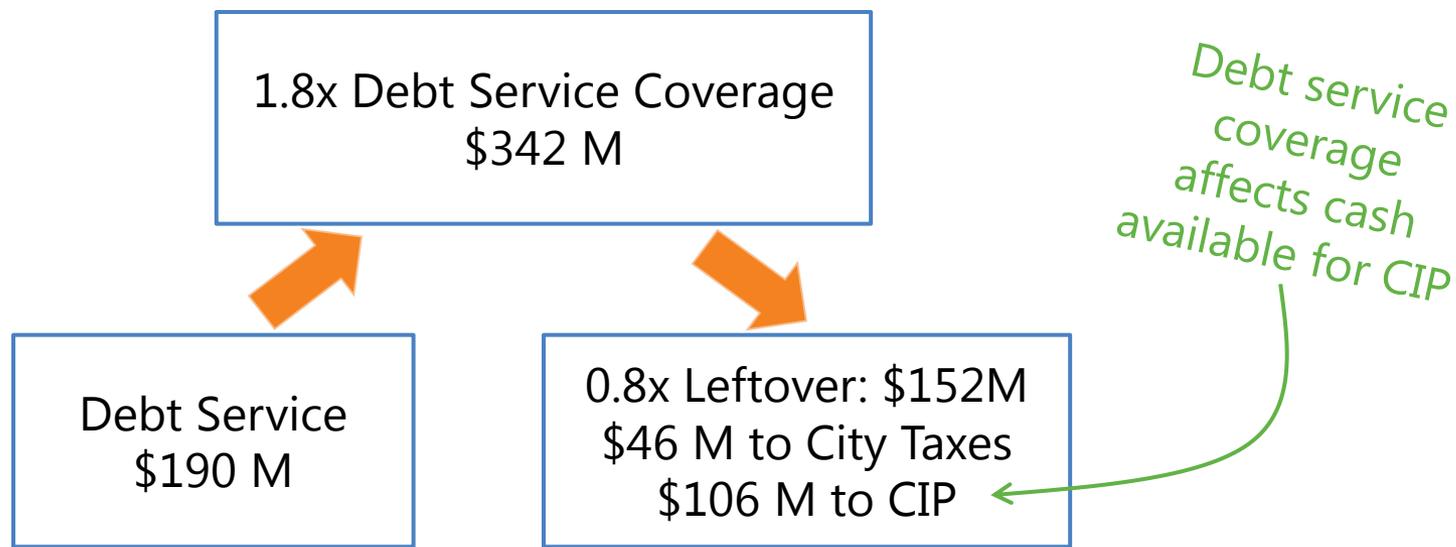


POLICY:
1.8X DEBT SERVICE
COVERAGE



DEBT SERVICE COVERAGE: 1.8X

- Debt service coverage is a very common metric for utilities.
 - Similar utilities' coverage targets are mostly in the 1.8x-2.0x range.
- City Light has achieved 1.8x each year since 2011. (2010=1.78x)
 - Since 2010, City Light has maintained/improved credit ratings.



DEBT SERVICE COVERAGE: POLICY DISCUSSION

- Impacts of City Light adjusting debt service coverage target
 - **Up** – Increase in liquidity, increase in (near-term) retail rates, possible credit rating improvement
 - **Down** – Decrease in liquidity, lower (near-term) rates and possible credit down grade

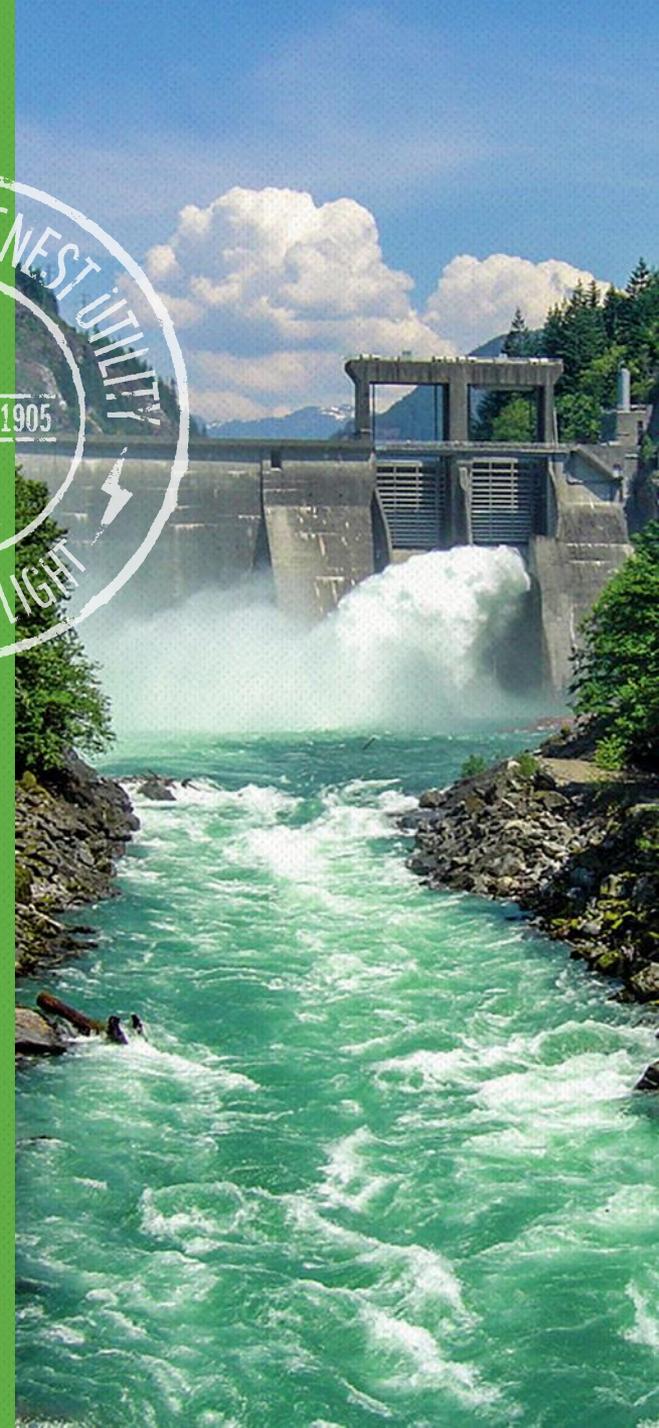
Benefit of Credit Upgrade

Credit Rating	Reduced Basis Points*	Lower Annual Debt Service per \$100 Million Debt Issued**
Aa1/AA+	5	(\$40,000)
Aaa/AAA	20	(\$140,000)

*Relative to SCL's current credit rating (Aa2/AA)

**30 year debt term

POLICY:
FUND 40% OF CIP
WITH CASH FROM
OPERATIONS

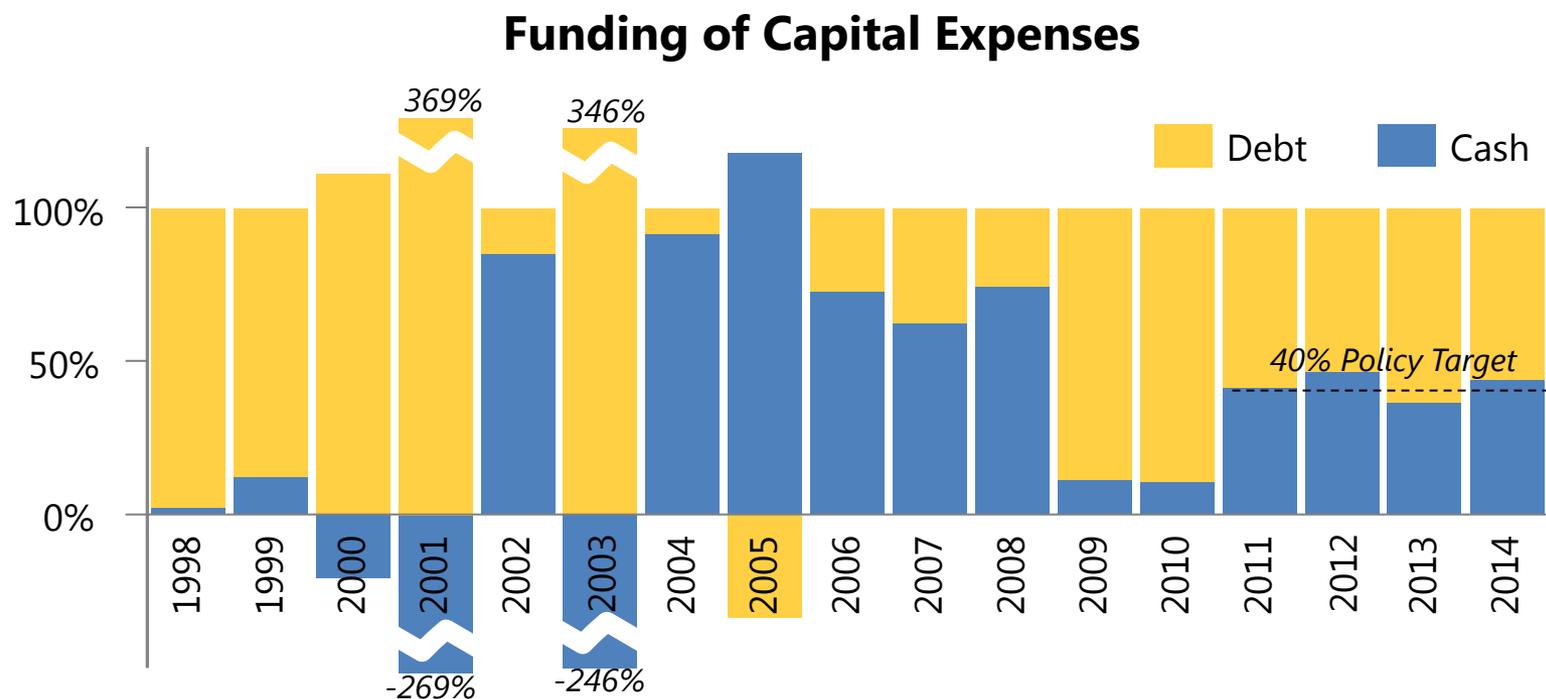


CIP FUNDED WITH CASH FROM OPERATIONS

- Policy: Manage 6-year CIP so that on average, 40% of the expenditures are funded with cash from operations.
 - Similar to debt-to-capitalization ratio (a common financial metric) but is forward looking (i.e., for planning purposes) instead of based on current balance sheet.
- Impacts of City Light adjusting CIP funding target
 - **Up** – Increase in liquidity, increase in (near-term) retail rates, possible credit rating improvement
 - **Down** – Decrease in liquidity, lower (near-term) rates and possible credit down grade

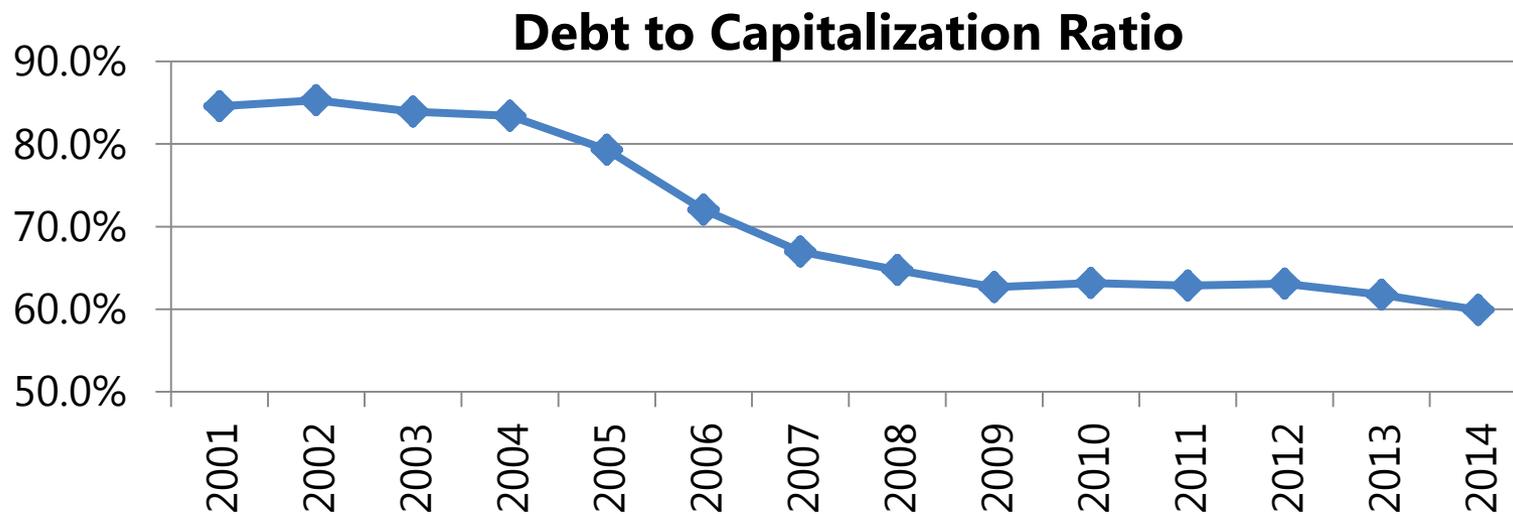
CIP FUNDED 40% WITH CASH FROM OPERATIONS

- Objective: equitable allocation of costs between current and future customers.
- Historically, finding this balance has been difficult.

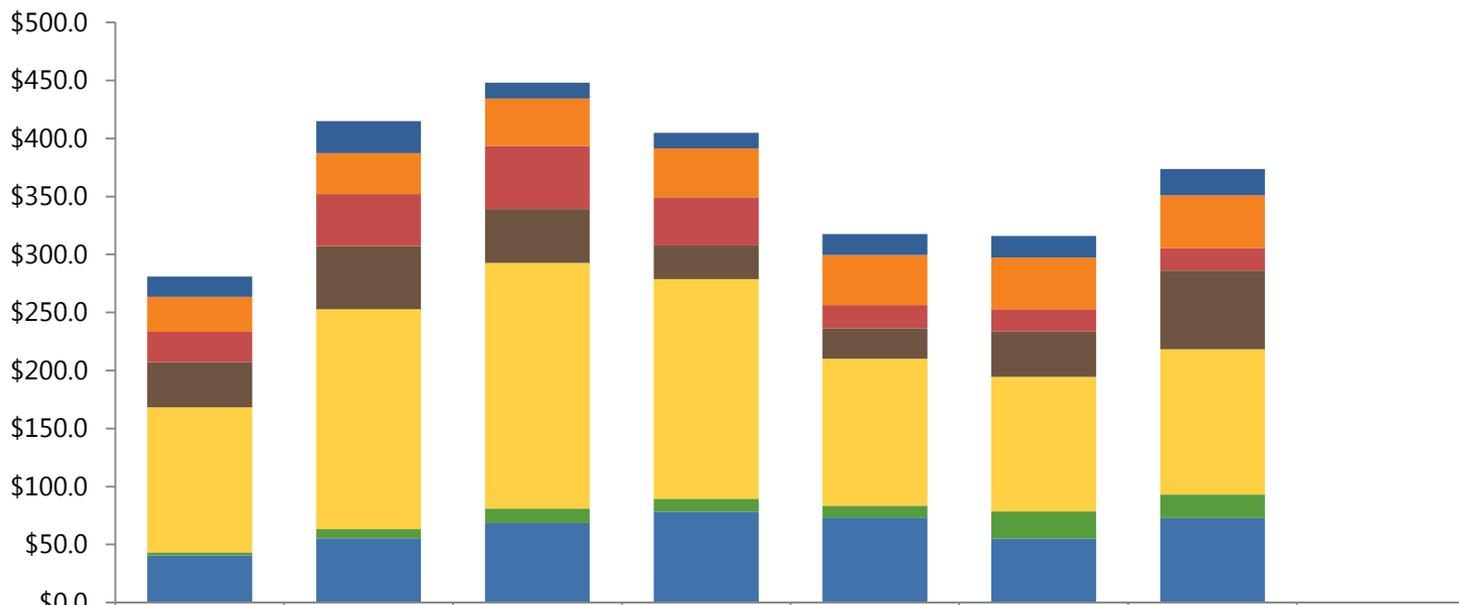


CIP FUNDED 40% WITH CASH FROM OPERATIONS

- Debt to capitalization ratio is declining– as of 2014, finally under 60% for the first time since the 1990s.
- Difficult to achieve the 40% target in the near term with robust capital plan laid out by the Strategic Plan



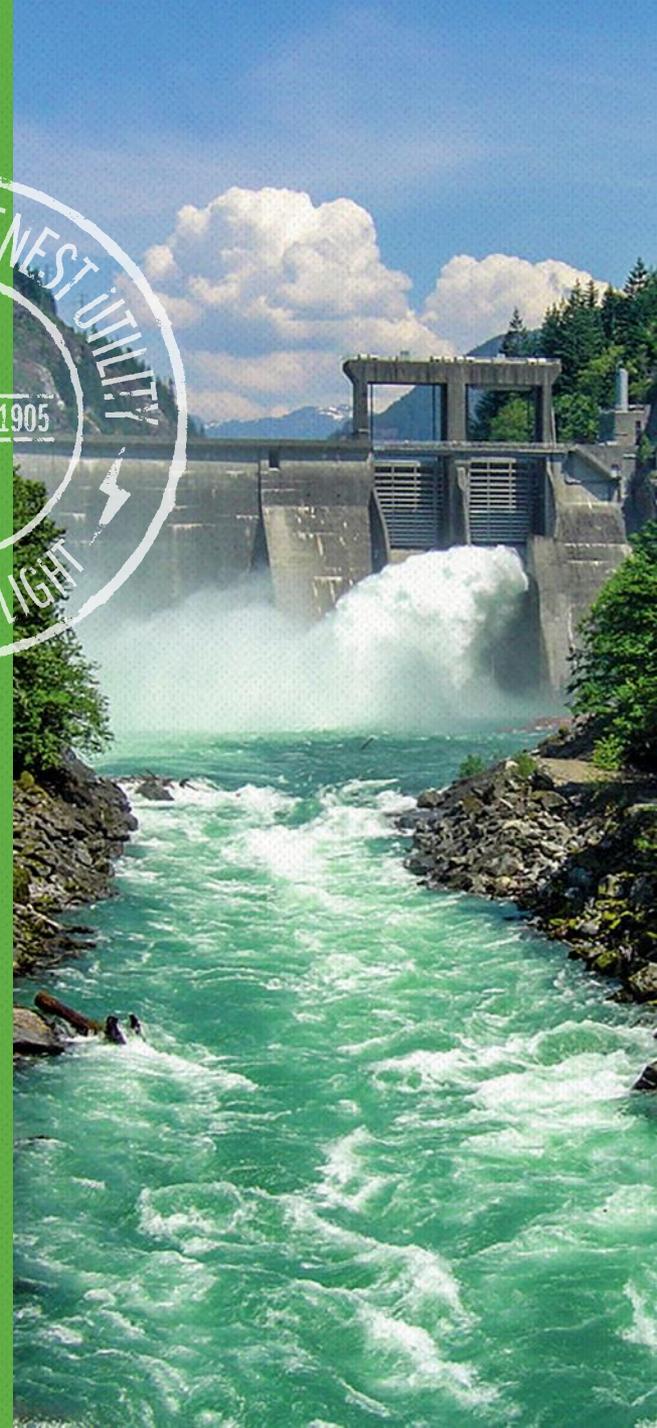
ADOPTED CIP 2015-2020



	2009-14 Avg \$2014	2015	2016	2017	2018	2019	2020	2015-20 Total
■ Other Deferred O&M	\$17.5	\$27.7	\$13.6	\$13.5	\$18.2	\$18.5	\$22.6	\$114.2
■ Conservation	\$29.9	\$35.1	\$40.9	\$42.1	\$43.3	\$44.6	\$45.9	\$252.0
■ Substation	\$26.4	\$45.1	\$54.4	\$41.6	\$19.8	\$19.2	\$19.0	\$199.1
■ General Plant	\$38.8	\$54.4	\$46.4	\$29.0	\$26.2	\$39.1	\$67.8	\$262.8
■ Distribution	\$125.0	\$189.4	\$211.8	\$189.1	\$126.5	\$115.8	\$125.5	\$958.1
■ Transmission	\$2.6	\$8.0	\$12.6	\$11.3	\$10.1	\$23.5	\$20.2	\$85.7
■ Generation	\$40.6	\$55.3	\$68.4	\$78.3	\$73.5	\$55.2	\$72.7	\$403.3
Total Expenditure	\$280.8	\$415.0	\$448.1	\$404.9	\$317.7	\$315.9	\$373.7	\$2,275.3



RATE STABILIZATION ACCOUNT



THE RATE STABILIZATION ACCOUNT (RSA)

- The RSA is a cash reserve for buffering net wholesale revenue (NWR).
 - Originally funded with a combination of reserves, debt savings, and surcharge revenue.
- Began operation January 1, 2011.
- Rules to maintain RSA at/near \$100 million target:

RSA Balance	Action
> \$125M	Council determines actions to reduce below \$125M
<= \$90M	Automatic 1.5% surcharge
<= \$80M	Automatic 3.0% surcharge
<= \$70M	Automatic 4.5% surcharge
<= \$50M	Council determines actions to replenish RSA to \$100M

RSA HISTORY

SETTING A GOOD NWR BUDGET IS THE TRICK

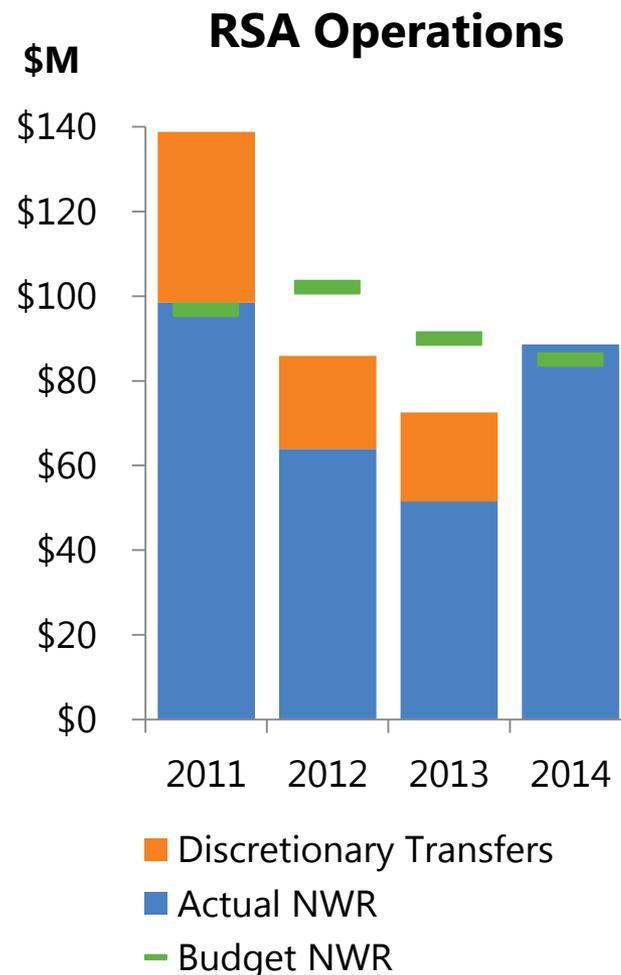
2011: RSA goes into operation, NWR budget = historical average.

2011-2013: To forestall surcharges, surplus operating cash transferred to RSA.

2013-2014: Strategic Plan amends NWR budget to a conservative fixed/declining amount.

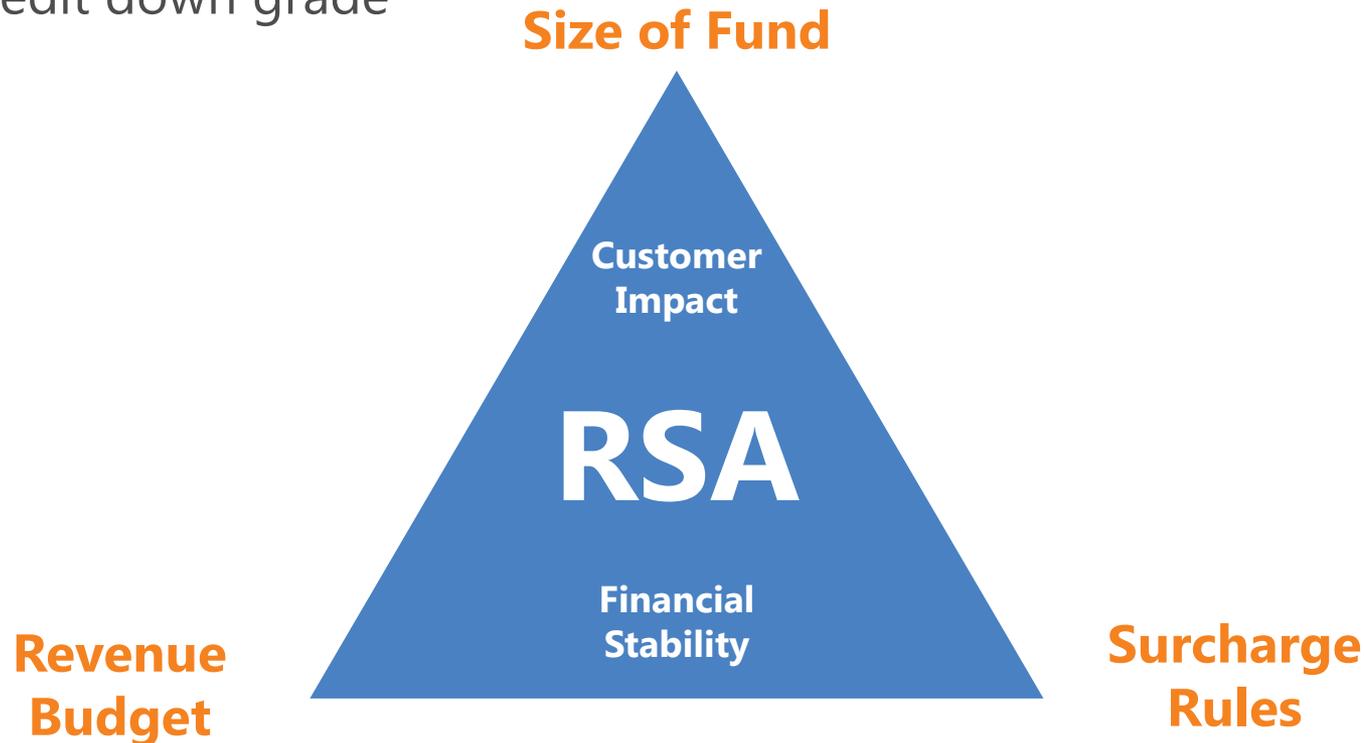
2014: Met budget, with 104% of normal hydro.

2015: Early hydro runoff fills the RSA above the max level. Council has given approval for it to remain this way, presuming that dry summer weather will draw the balance down again before year-end.



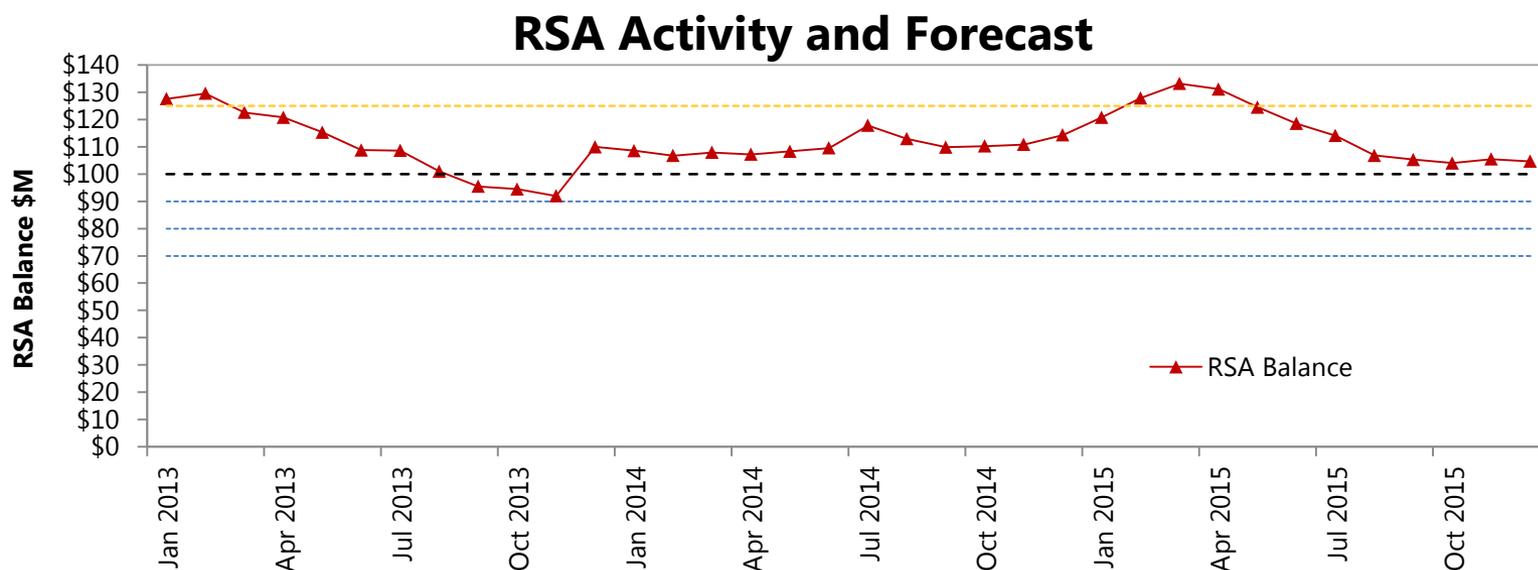
RSA POLICY DISCUSSION

- **Up** – Increase in liquidity, increase in (near-term) retail rates, possible credit rating improvement
- **Down** – Decrease in liquidity, lower (near-term) rates and possible credit down grade



RSA POLICY DISCUSSION

- Due to early runoff, RSA is currently above the \$125 M cap.
- Last month, City Council passed an Ordinance to suspend action to reduce RSA, since this exceedance is expected to be short-lived.
- RSA is expected to be about \$100 M by year-end.





CITY LIGHT

OUR VISION

To set the standard—to deliver the best customer service experience of any utility in the nation.

OUR MISSION

Seattle City Light is dedicated to exceeding our customers' expectations in producing and delivering environmentally responsible, safe, low-cost and reliable power.

OUR VALUES

Excellence, Accountability, Trust and Stewardship.

