

Rating Action: Moody's assigns Aa2 to rating to Seattle, WA's 2018A electric revenue bonds; outlook stable

24 May 2018

Approximately \$261 million of debt affected

New York, May 24, 2018 -- Moody's Investors Service has assigned Aa2 ratings to \$261 million of City of Seattle, WA's (Seattle) Electric Enterprise's (Seattle City Light or SCL) Municipal Light and Power Improvement Revenue Bonds, 2018, Series A. Moody's maintains Aa2 ratings on SCL's outstanding parity bonds. The rating outlook is stable.

RATINGS RATIONALE

Seattle City Light's Aa2 rating considers the wealthy and diverse service area covering the City of Seattle (UTGO Aaa/stable) and surrounding communities, SCL's historical

willingness to raise rates when necessary, and credit supportive financial policies including the Rate Stabilization Account (RSA). Other credit supportive factors are SCL's ownership

of low cost hydro generation, long-term power supply contract with Bonneville Power Administration (BPA, Aa1/stable), competitive retail rates, and SCL's participation in the City of Seattle's consolidated money pool (totaling \$1.2 billion net of enterprise funds).

The Aa2 rating also captures credit challenges including material wholesale price exposure, low electric load growth relative to the service area's economic growth, hydrology risk, and

SCL's continued growth in debt to fund its large \$2.5 billion, 6-year capital improvement plan (CIP). The rating further considers volatile historical financial metrics that have ranged

from the 'Baa' to 'Aa' category under Moody's US Public Power with Generation Ownership methodology owing in part to regional hydrology levels and lower than expected demand growth. For 2017, the utility financial performance improved with Moody's adjusted debt service coverage ratio (DSCR) of 1.58x and liquidity of 130 days cash on hand compared to DSCR of 1.5x and liquidity of 104 days cash on hand in 2016. A combination of a planned rate increase and a cold 2016/2017 winter contributed to a 11% increase in retail electricity sales for 2017 that drove the financial performance improvement.

On a look forward basis, we incorporate the view that the utility will achieve adjusted financial performance above our quantitative guidance of 1.5x DSCR and maintain at least 90 days cash on hand. Our assumption is supported by the planned rate increases under the utility's draft strategic plan, and more conservative assumptions regarding future retail electricity demand, and the city's growing economy.

RATING OUTLOOK

The stable outlook considers the benefit of the RSA mechanism, our expectation that the utility will maintain over 90 days cash on hand and adjusted DSCR of at least 1.5x, and recognizes city council's historic willingness to support credit quality. The stable outlook is also supported by the City of Seattle's strong and growing economy and SCL's participation in the City of Seattle's consolidated money pool.

FACTORS THAT COULD LEAD TO AN UPGRADE

-Internal liquidity comfortably exceeding 150 days cash on hand and adjusted DSCR exceeding 2.0 times on a sustained basis.

FACTORS THAT COULD LEAD TO A DOWNGRADE

-Weakening of financial policies including chronic net draws on the RSA account

-Willingness to increase rates diminishes

- Inability to sustain at least 90 days cash on hand or Moody's adjusted DSCR of at least 1.5x over time
- Liquidity support through the City of Seattle's money pool is weakened
- Severe deterioration of underlying regional economy

LEGAL SECURITY

SCL's bonds are secured by a pledge of the net revenues of SCL and covenants require that the City of Seattle set rates to fund debt service, operating costs and other costs to maintain the system. Moody's considers the rate covenant to be weaker than typical for similar issuers. For additional indebtedness, SCL is required to meet a 1.25 times DSCR based on net system revenues incorporating draws from and deposits into the RSA. Furthermore, the bonds have a debt service reserve for all parity bonds sized to the lesser of maximum annual debt service or reasonably required reserve or replacement fund per the tax code. The reserve is currently sized to 125% of average annual debt service (excluding variable rate debt). After the debt issuance, the reserve is expected to be funded with a \$75 million surety from Assured Guaranty Municipal Corp (insurance strength: A2-stable) and \$118 million of cash.

USE OF PROCEEDS

Bond proceeds will be used for capital spending, additional funding of the debt service reserve, and to pay issuance costs.

PROFILE

Seattle City Light is a department of the City of Seattle, which operates a utility system that primarily generates and delivers electricity to approximately 454,500 customers in the City of Seattle and several surrounding communities under franchise agreements. The City of Seattle is located in the western part of Washington State and is commercial hub for the Pacific Northwest. SCL's service area comprises of 131 square miles and has a population of approximately 874,000.

METHODOLOGY

The principal methodology used in this rating was US Public Power Electric Utilities With Generation Ownership Exposure published in November 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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