MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 rating to Seattle, WA's 2016 electric revenue bonds; outlook stable

Global Credit Research - 09 Dec 2015

Approximately $158 million of debt securities affected

SEATTLE (CITY OF) WA ELECTRIC ENTERPRISE
Electric Distribution and Generation
WA

Moody's Rating

ISSUE		RATING
Municipal Light and Power Refunding Revenue Bonds, 2016B		Aa2
Sale Amount	$126,000,000	
Expected Sale Date	01/13/16	
Rating Description	Revenue: Government Enterprise	
Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds - Direct Payment)		Aa2
Sale Amount	$32,000,000	
Expected Sale Date	01/13/16	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook STA

NEW YORK, December 09, 2015 --Moody's Investors Service has assigned Aa2 ratings to $158 million of City of Seattle, WA's (Seattle) Electric Enterprise's (Seattle City Light or SCL) revenue bonds consisting of $32 million of Municipal Light and Power Revenue Bonds, 2016A (Taxable New Clean Renewable Energy Bonds-Direct Payment) and $126 million of Municipal Light and Power Refunding Revenue Bonds, 2016B. The rating outlook is stable.

SUMMARY RATING RATIONALE

Seattle City Light's Aa2 rating considers SCL's strong historical willingness to raise rates when necessary, wealthy and diverse service area covering the City of Seattle (UTGO Aaa/stable) and surrounding communities, 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.

The Aa2 rating also captures credit challenges including material wholesale price exposure, hydrology risk, and forecasted financial metrics in the 'A' category under Moody's U.S. Public Power with Generation Ownership methodology starting in 2017. The rating further considers SCL's continued growth in debt to fund its $2.3 billion, 6-year capital improvement plan (CIP).

OUTLOOK

The stable outlook considers the benefit of the RSA mechanism, expected 'A' category financial metrics in 2017 and thereafter with over 100 days cash on hand and adjusted debt service coverage ratio (DSCR) of at least 1.5 times, and city council's demonstrated willingness to support credit quality. The stable outlook is also supported by the City of Seattle's strong economy and SCL's participation to the City of Seattle's consolidated money pool.

WHAT COULD MAKE THE RATING GO UP

In light of the capital spending program, limited prospects exist for the rating to be upgraded. The ratings could be upgraded if SCL is able to sustain financial metrics in the 'Aa' category including internal liquidity comfortably exceeding 150 days cash on hand and adjusted DSCR exceeding 2.0 times.

WHAT COULD MAKE THE RATING GO DOWN

SCL's ratings could be downgraded if the RSA mechanism is removed or weakened, the city council's willingness to increase rates diminishes or if financial metrics drop into the 'Baa' category including days cash on hand below 90 days or Moody's adjusted DSCR below 1.5 times on a sustained basis. SCL's rating also can be downgraded if SCL does not have liquidity support through the City of Seattle's money pool, if SCL's financial policy targets were to be downwardly revised or if the underlying regional economy were to severely deteriorate.

STRENGTHS

-Strong and diverse service area anchored by the City of Seattle

-Demonstrated willingness to set rates including RSA mechanism

-Ownership of low cost hydro and contracted power from BPA

-Competitive retail rates

-Liquidity support through City of Seattle's consolidated money pool

CHALLENGES

-Hydrology and wholesale market risk

-Forecasted 'A' category financial metrics post 2016

-Very large capital spending program

RECENT DEVELOPMENTS

In November 2015, Seattle's mayor nominated Larry Weis as the new general manager for Seattle City Light. Seattle City Council approval is required, which is anticipated in early 2016. Larry was the head of Austin (City of) TX Electric Enterprise (Austin Energy, Aa2 stable). James Baggs, previously the utility's chief compliance officer, has been serving as the interim general manager since Jorge Carrasco retired as the general manager in May 2015.

In May 2015, Washington State declared a statewide drought emergency due to substantially below average regional snowpack. Below average water conditions, low wholesale power prices, and lower demand due to a mild winter have resulted in lower revenue including net wholesale revenue almost 50% lower than budgeted for Seattle City Light. Based on updated forecasts, we now expect Seattle City Light will have adjusted DSCR of 1.3 times and 112 days cash on hand compared to our expectations of 1.6 times and 142 days cash on hand for 2015. This highlights the volatility that hydrology and wholesale market prices can have on SCL's financial performance. However, SCL's RSA mechanism was designed as a key risk mitigant to address such volatility and the utility expects a retail surcharge taking effect in 2016 to bring the RSA balance back to $100 million. We also expect SCL will return closer to their long term expected financial performance including adjusted DSCR improving to 1.5 times by 2017 assuming average water conditions.

DETAILED RATING RATIONALE

Please see Moody's new sale report on Seattle City Light dated June 9, 2015 for detailed rating rationale.

OTHER CONSIDERATIONS: MAPPING TO THE GRID

Moody's evaluates Seattle City Light under the U.S. Public Power Electric Utilities with Generation Ownership Exposure methodology, and, as depicted below, the grid indicated rating is Aa2, in line with its current Aa2 rating.

The grid is a reference tool that can be used to approximate credit profiles for public power with generation ownership in most cases. However, the grid is a summary that does not include every rating consideration. Please see U.S. Public Power Electric Utilities with Generation Ownership Exposure for more information about the limitations inherent to grids.

METHODOLOGY SCORECARD FACTORS

1. Cost Recovery Framework in Service Area: (25% weight) (Aaa)

2. Willingness to Recover Costs and Maintain Sound Financial Metrics (25% weight) (Aa)

3. Management of Generation Risk- (10% weight) (A)

4. Rate Competitiveness: (10% weight) (A)

5. Financial Strength:

Sub factor a) Adjusted Days Liquidity on Hand: (10% weight) (192 3-yr avg) (Aa)

Sub factor b) Debt Ratio: (10% weight) (61% 3-yr avg) (A)

Sub factor c) Adjusted Debt Service Coverage: (10% weight) (1.50x 3-yr avg) (A)

Grid Indicated Rating: Aa3

Notching: +1 (liquidity support through Seattle's consolidated money pool)

Scorecard Indicated Rating: Aa2

KEY STATISTICS

Total Unrestricted Cash and Investments, 2014: $243 million

Boundary Project Hydro Capacity (Nameplate): 1,022 MW

Skagit Projects Hydro Capacity (Nameplate): 802 MW

Moody's Total Debt Service Coverage, 2014: 1.88 times (not adjusted) / 1.63 times (adjusted)

Senior Debt Service Coverage, 2014: 1.85 times (per resolution)

Cash to Debt Ratio, 2014: 13.4%

Debt Ratio, 2014: 59.4%

Consolidated Days Cash on Hand, 2014: 166 days

City of Seattle's Cash and Investment Pool, 2014: $1.6 billion ($791 million net of enterprise funds)

Average System Rate, 2014: Approximately 7.7 cents/kwh

Revenue Bonds, 2014: $1.9 billion

OBLIGOR 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 415,056 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 776,000.

LEGAL SECURITY

SCL's bonds are secured by a pledge of the gross 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 debt issuance, the reserve is expected to be funded with a $77 million surety from Assured Guaranty Municipal Corp (insurance strength: A2-stable) and $72.8 million of cash.

USE OF PROCEEDS

Approximately $32 million of the issuance will fund a portion of SCL's capital spending plans and pay for transaction costs. The remaining funds are expected to refund a portion of the 2008 series revenue bonds and SCL will provide for incremental funding of the debt service reserve.

ISSUER CONTACT

Michael Van Dyck, Director of Debt Financing - City of Seattle, 206-684-8347

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was U.S. Public Power Electric Utilities with Generation Ownership Exposure published in November 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Clifford J Kim
Lead Analyst
Public Finance Group
Moody's Investors Service

Chee Mee Hu
MANAGING_DIRECTOR
Public Finance Group
Moody's Investors Service

A.J. Sabatelle
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA