Seattle City Light **MEMO**

NOVEMBER 13, 2018

TO
Jenny Durkan, Mayor
Seattle City Council

FROM
Debra Smith, General Manager and CEO

SUBJECT
Financial Update – September 2018

This report provides an analysis of Seattle City Light's financial condition, with a focus on the Utility's progress towards meeting its financial policy of achieving debt service coverage of 1.80x or greater.

Given actuals through the end of September, 2018 debt service coverage is projected to be 1.84x. The favorable variance from the Plan is partially attributable to intentional spending reductions of approximately $10 million, which have reduced O&M spending. Higher than planned retail revenue is also contributing to the positive variance. More detail is included in the following sections.

2018 Financial Highlights			
	Forecast[1]	Plan[2]	Variance
Retail Revenue ($ in millions)	$883.6	$877.5	$6.1
Net Wholesale Revenue ($ in millions)	$42.9	$60.0	($17.1)
Debt Service Coverage	1.84	1.75	0.09
The Rate Stabilization Account (RSA) cash balance was $91.0 million as of September 30, 2018. A 1.5% surcharge has been in effect since August 1, 2016. The surcharge will remain in effect through the end of 2018.			
O&M costs are under budget			
CIP costs are under budget			

[1] Includes actual financial results through September 2018.

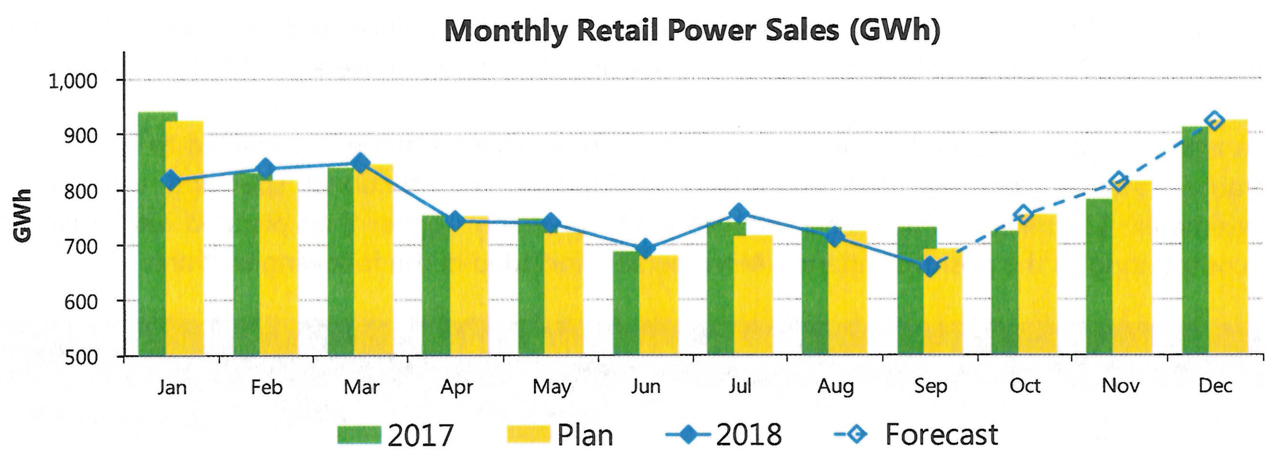
[2] 2018 retail rates were set back in 2016 to achieve 1.80x debt service coverage given expectations about costs and sales volumes. The 2018 Plan reflects new information available going into the year, including the 2018 Adopted Budget and a lower retail sales outlook, resulting in the 1.75x debt service coverage.

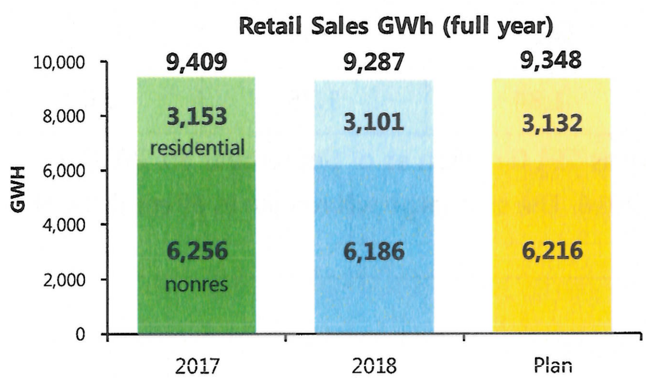
RETAIL POWER SALES AND REVENUE

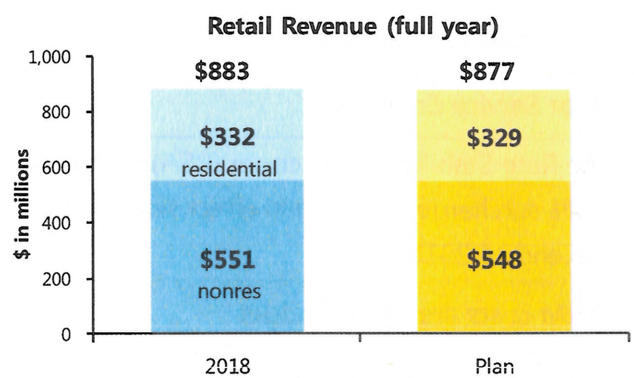
YTD -- Retail sales (GWhs) are 0.9% lower than the Plan and sales variances due to weather are estimated to be minor, as significantly lower heating load in January has been mostly offset by higher heating load in other months.

Full Year -- Retail sales (GWhs) are 0.7% lower than the Plan driven by the YTD variance described above. Retail revenue is expected to come in $6.1 million or 0.7% above the Plan. The disconnect between residential sales and revenue variances is being driven primarily by a higher than planned proportion of second block sales, which is driving up the average rate. The disconnect between nonresidential revenue and sales variances reflects consumption shifts between different rate classes, variances in billing components (demand charges, peak/off-peak ratio) and possibly also billed revenue with no associated billed MWh in 2018 because it is related to energy delivered to customers in prior years.

Changes in monthly retail sales to date are driven largely by the weather.







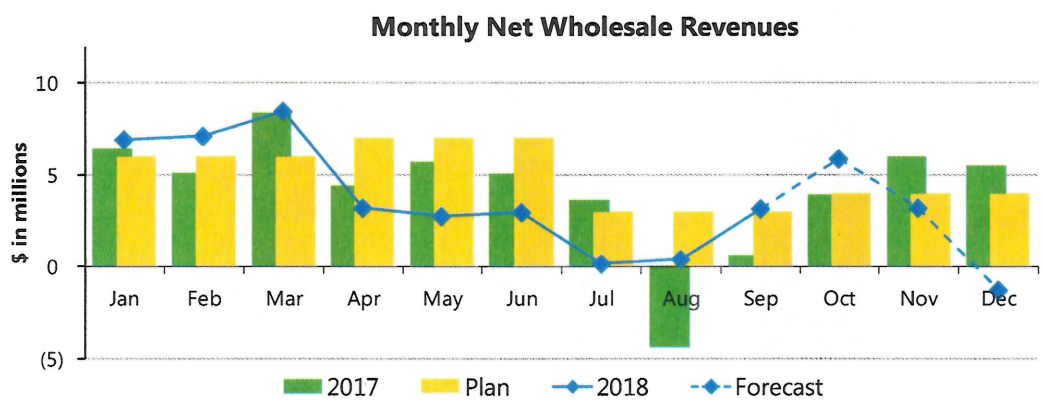
Retail Sales GWh (full year)			
	Nonresidential	Residential	Total
2018 vs. Plan	(0.5%)	(1.0%)	(0.7%)

Retail Revenue (full year)			
	Nonresidential	Residential	Total
2018 vs. Plan	0.5%	0.9%	0.7%

NET WHOLESALE REVENUE

Net short-term wholesale revenue (NWR) represents revenue received from the sale of power generated in excess of system sales and other obligations. NWR fluctuates with changes in water conditions, retail sales and economic factors such as the price of natural gas. In addition to low prices, NWR in Q2 was lower than expected due to lower generator availability. The spike in October revenue reflects the forecasted impact of the British Columbia pipeline explosion on the price of natural gas. The RSA buffers any NWR-to-Plan variance so actual NWR does not impact debt service coverage.

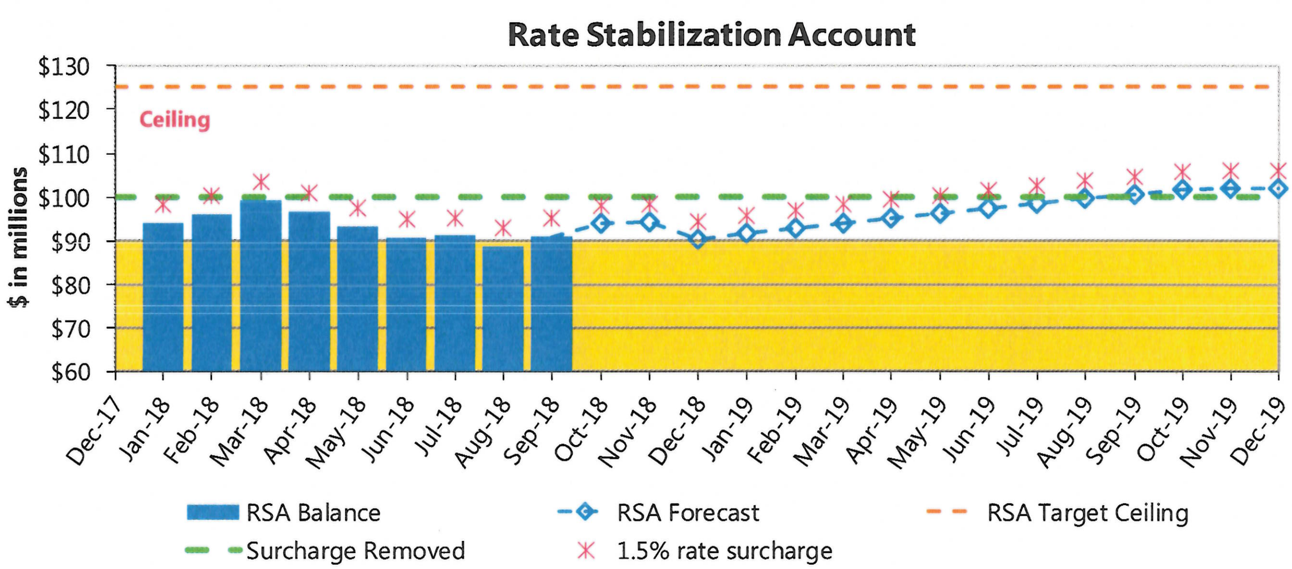
$ in millions	2017	2018	Plan	Variance-Y/Y	Variance-Plan
Full Year	$50.5	$42.9	$60.0	($7.6)	($17.1)
YTD	$35.1	$35.1	$48.0	$0.0	($12.9)



As of October 24, 2018	5 Year Avg	2018 Avg	% of 5 Yr Avg
SCL Hydro Generation (GWh)	6,349	6,128	97%
Market Prices (On-Peak Hours)	$29.91	$37.96	127%

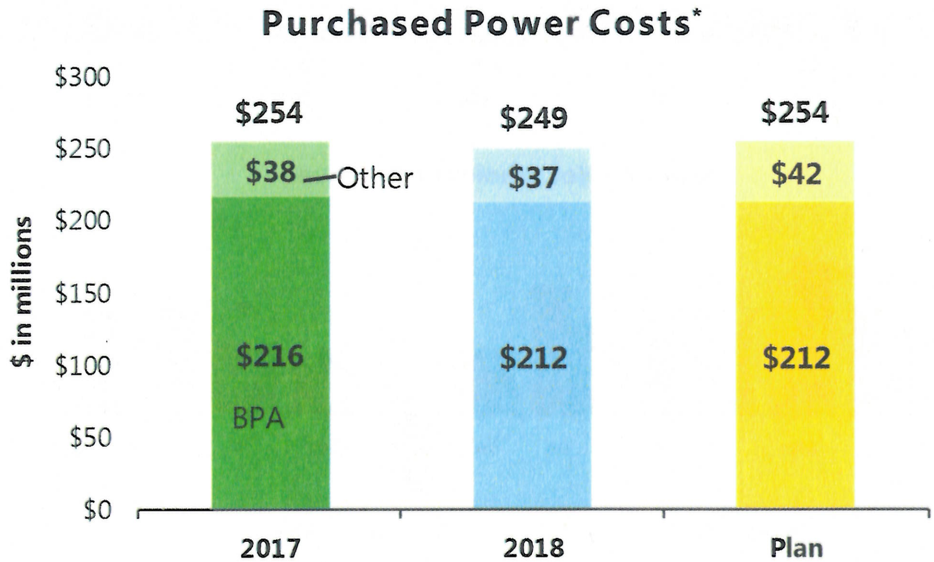
RATE STABILIZATION ACCOUNT

The Rate Stabilization Account (RSA) cash balance was $91.0 million as of September 30, 2018. A 1.5% surcharge has been in effect since August 1, 2016. The surcharge will remain in effect through the end of 2018 and is likely to continue to be in effect through the end of 2019.



PURCHASED POWER COSTS (NET)

Total purchased power costs (net) are $4.7 million or 1.9% lower than the Plan. The favorable variance is driven primarily by non-BPA power costs, which are $4.8 million under the Plan due to higher net power marketing revenue. A $1.1 million higher than expected BPA Slice true-up credit was offset by a $1 million unanticipated BPA spill surcharge.

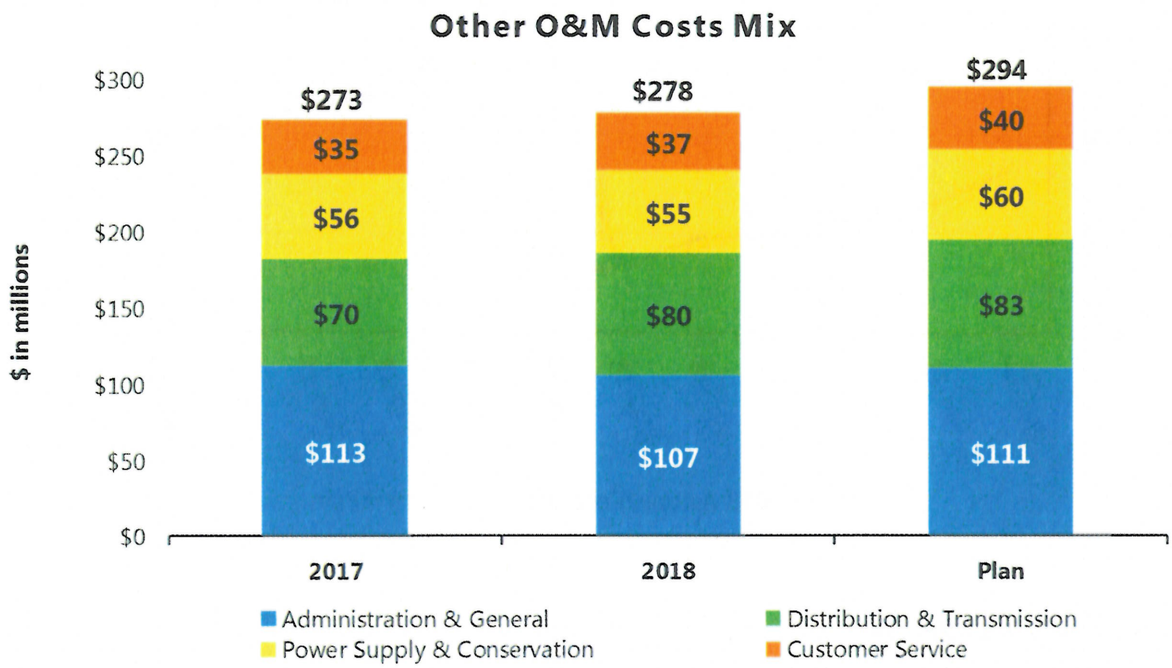


Full Year Variances	BPA	Other	Total
2018 Forecast vs. 2017	(1.7%)	(3.3%)	(1.9%)
2018 Forecast vs. Plan	0.0%	(11.6%)	(1.9%)

*Purchased power costs include long-term purchased power and wheeling expenses net of power contract and power marketing revenue.

OTHER O&M COSTS

Other O&M costs are $16.5 million or 5.6% under the Plan. The 2018 Plan was set using planning assumptions from City Light's adopted 2018 O&M budget. The forecast is lower than the budget largely due to approximately $10 million in spending reductions identified by the Utility to help move towards its 1.80x debt service coverage goal. These reductions include labor savings (holding higher vacancy rates) and cuts to training, travel and consulting services. The remaining variance is due to a higher than planned A&G overhead application rate resulting from a change in methodology influenced by the SRI system conversion. Accordingly, a larger than planned portion of total A&G costs is being allocated to capital.



Full Year Variances	Administration & General	Distribution & Transmission	Power Supply & Conservation	Customer Service	Total
2018 vs. 2017	(5.5%)	13.7%	(1.8%)	6.0%	1.7%
2018 vs. Plan	(4.4%)	(4.2%)	(8.0%)	(8.2%)	(5.6%)

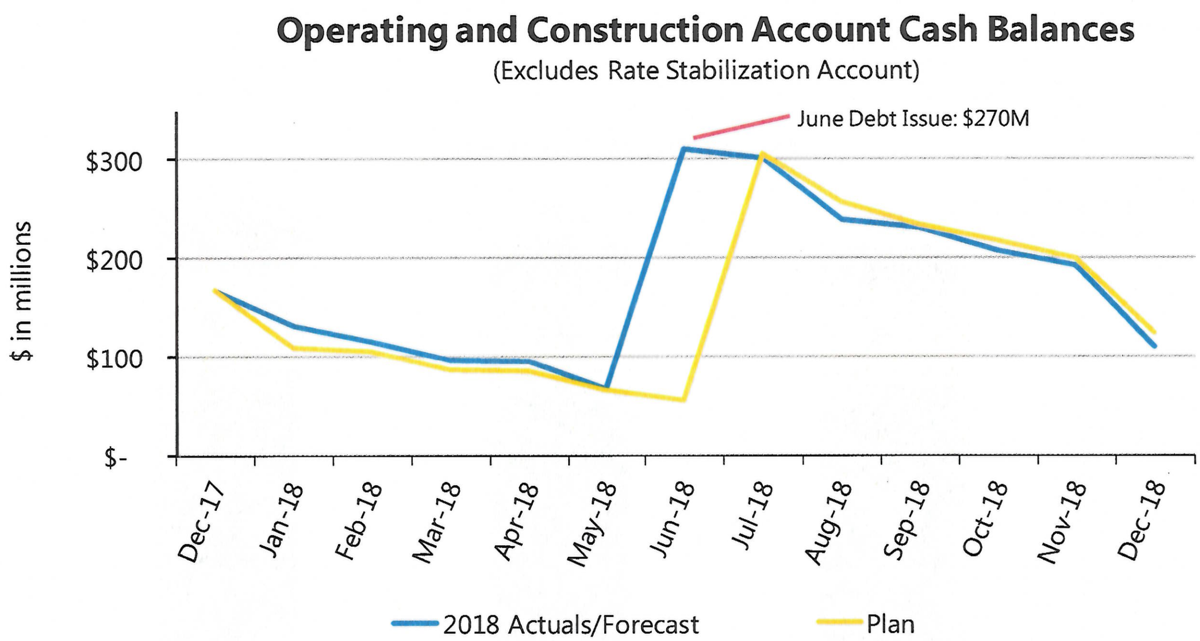
DEBT SERVICE

2018 principal and interest payments are forecast to come in slightly lower than the Plan.

Full Year Variances	2017	2018	Plan
Debt Service ($ in millions)	$203.3	$213.2	$214.4

OPERATING AND CONSTRUCTION ACCOUNT CASH BALANCES

As of September 30, 2018, City Light's operating plus construction account cash balance was $230.9 million. The 2018A fixed rate bond series was issued on June 19. Net proceeds will be used to fund City Light's Capital Improvement Plan ($270 million). On September 4, $200 million in variable rate bonds were issued and $200 million in previously issued variable rate bonds were retired. The new bonds were issued with a tighter index spread, which has the potential to save City Light an estimated $750 thousand in annual interest expense.



OTHER REVENUE & EXPENSE

Net other expense is higher than the Plan by $10.2 million or 77%. The unfavorable variance was driven by $13.0 million in higher than expected year-to-date uncollectable revenue. Very cold 2017 winter weather contributed to the volume of past due accounts, as did City Light's decision to temporarily suspend customer disconnections due to lingering impacts from the conversion to the new billing system. As of September, billing backlog issues were largely resolved and City Light has resumed its regular collection processes. This is expected to help normalize uncollectable revenue levels.

SUMMARY FINANCIAL RESULTS – FULL YEAR 2018

For additional detail please see the preceding page(s) referenced in the table below.

$ in millions	Forecast	Plan	Variance	Page
Debt Service Coverage				
Retail Revenue	$883.6	$877.5	$6.1	2
RSA Surcharge Revenue*	$13.0	$7.7	$5.3	--
Net Wholesale Revenue	$42.9	$60.0	($17.1)	3
RSA Transfers (net)	$3.1	($8.4)	$11.5	--
Other Revenue (expense)	($23.6)	($13.4)	($10.2)	--
Total Revenue	**$919.0**	**$923.4**	**($4.4)**	--
Purchased Power (net)	$249.4	$254.1	($4.7)	4
Other O&M	$277.7	$294.2	($16.5)	5
Total Expense	**$527.1**	**$548.3**	**($21.2)**	--
Amount Available for Debt Service	**$391.9**	**$375.1**	**$16.8**	--
Debt Service	$213.2	$214.4	($1.2)	5
Debt Service Coverage	1.84	1.75	0.09	1
Net Income	$146.7	$99.6	$47.1	--
Debt to Capitalization Ratio	62.6%	63.5%	-0.9%	--
Liquidity				
Operating & Construction Cash @ September 30, 2018	$230.9	$233.5	($2.6)	6
Rate Stabilization Account @ September 30, 2018	$91.0	$101.4	($10.5)	3

* The RSA surcharge will be in effect throughout 2018, whereas the Plan had projected it would be lifted in August of 2018.

BUDGET

As of September 2018, City Light is projecting that overall it will be within its budget authority through year-end 2018. The Department has spent 68% of the overall O&M budget (O&M budget includes non-power O&M expenses, purchased power, taxes and debt service) through September. At this point in the year we would normally expect to have spent 75% of the annual budget. City Light's spending on the Capital program through September is approximately 61% of the 2018 annual budget. City Light anticipates that the CIP accomplishment rate will be approximately 80-85% by year-end.

Budget Summary	YTD - Sep	Full Year -2018		
$ millions	**Actuals**	**Projections**	**Budget**	**Diff**
O&M				- Over / + Under
Purchased Power	$239.2	$321.9	$351.5	$29.7
Utility Operations & Administration	$255.0	$391.7	$397.0	$5.4
Taxes and Debt Service	$270.5	$312.2	$317.8	$5.7
O&M Total	**$764.7**	**$1,025.7**	**$1,066.3**	**$40.7**
% of Annual Budget	71.7%	96.2%	100.0%	3.8%
CIP				
Customer Focused	$125.1	$165.3	$205.9	$40.6
Transmission and Distribution	$162.4	$211.7	$236.4	$24.7
Financial Services	$7.6	$9.9	$13.3	$3.3
Power Supply & Environmental Affairs	$103.6	$138.4	$197.1	$58.7
CIP Total	**$398.8**	**$525.4**	**$652.7**	**$127.3**
% of Annual Budget	61.1%	80.5%	100.0%	19.5%
Total Budget	**$1,163.5**	**$1,551.0**	**$1,719.0**	**$168.0**
% of Annual Budget	67.7%	90.2%	100.0%	9.8%

Purchased Power variance is due to budget being conservatively oversized to provide a high degree of certainty that external circumstances such as power prices and hydro conditions will not cause budget exceptions.

Utility Operations and Administration $5.4 million under expenditure is primarily attributable to labor savings from vacant positions.

Taxes and Debt Service underspend of $7.5 million is due to lower than projected interest payments partially offset by higher tax payments.

CIP is forecast to underspend by $127.3 million and is not expected to meet the 90% achievement target for 2018. The majority of underspending is due to project delays in discrete projects, with approximately $100 million expected to carry forward into 2019.

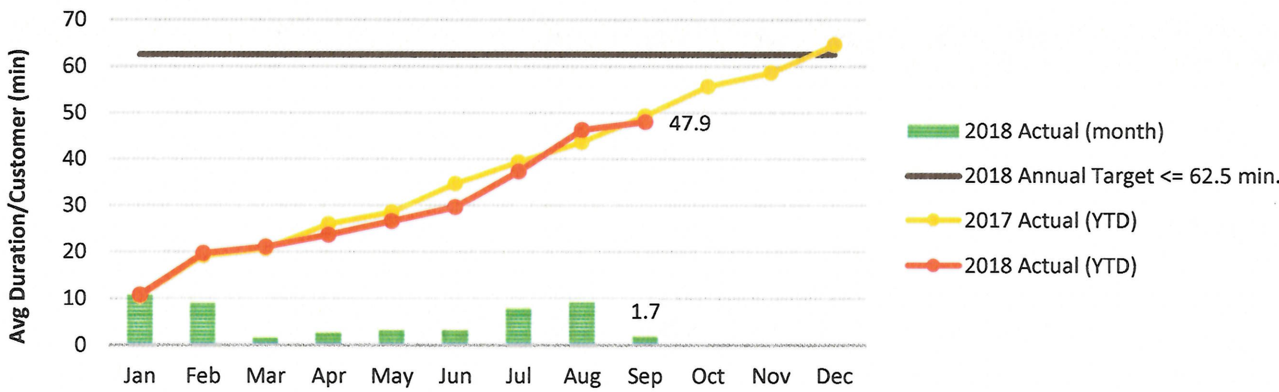
Attachments: City Light Risk Oversight Status Report and Corporate Performance Metrics

cc: Kiersten Grove
Toni Jo Howard
Glen Lee
Janice Marsters
David Moseley
Ben Noble
Eric McConaghy
Saroja Reddy
Greg Shiring
Michael Van Dyck

Seattle City Light
Monthly Performance Metrics Report
September 2018

DISTRIBUTION OPERATIONS

SAIDI



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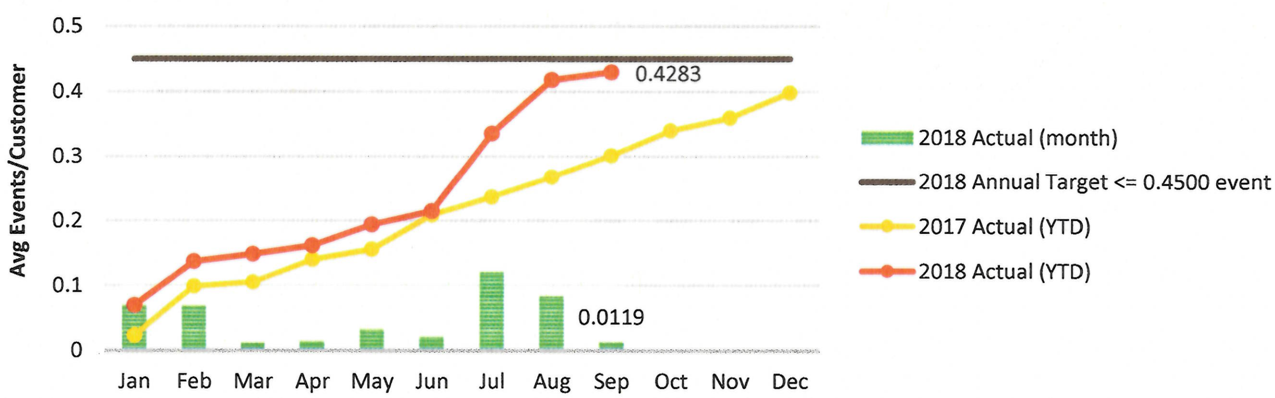
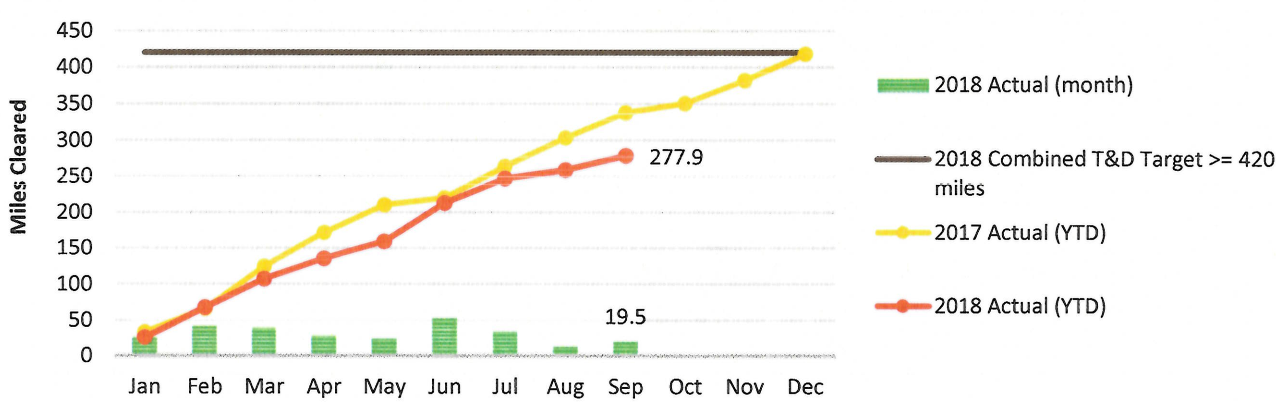


MILES OF RIGHTS OF WAY CLEARED

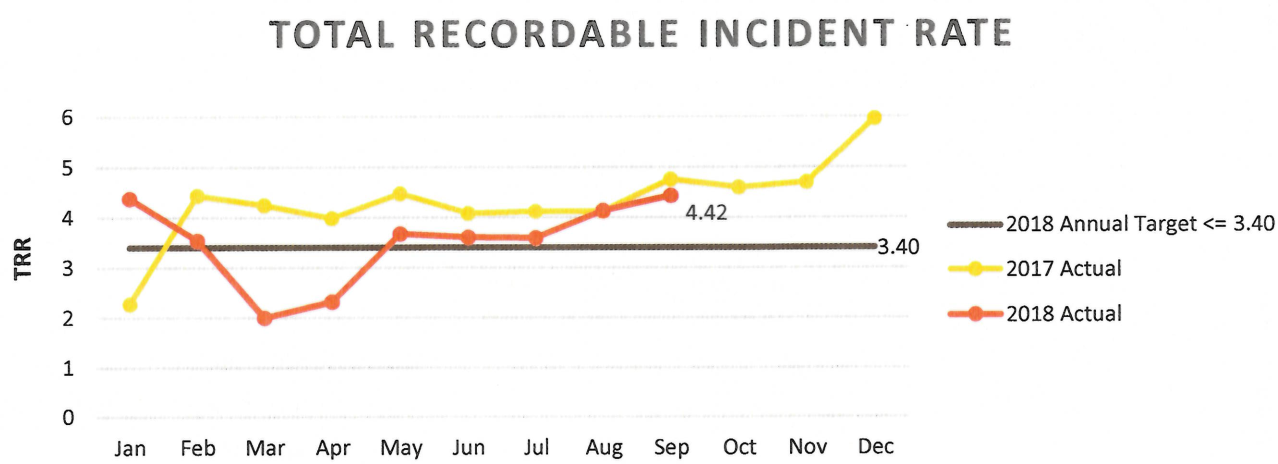


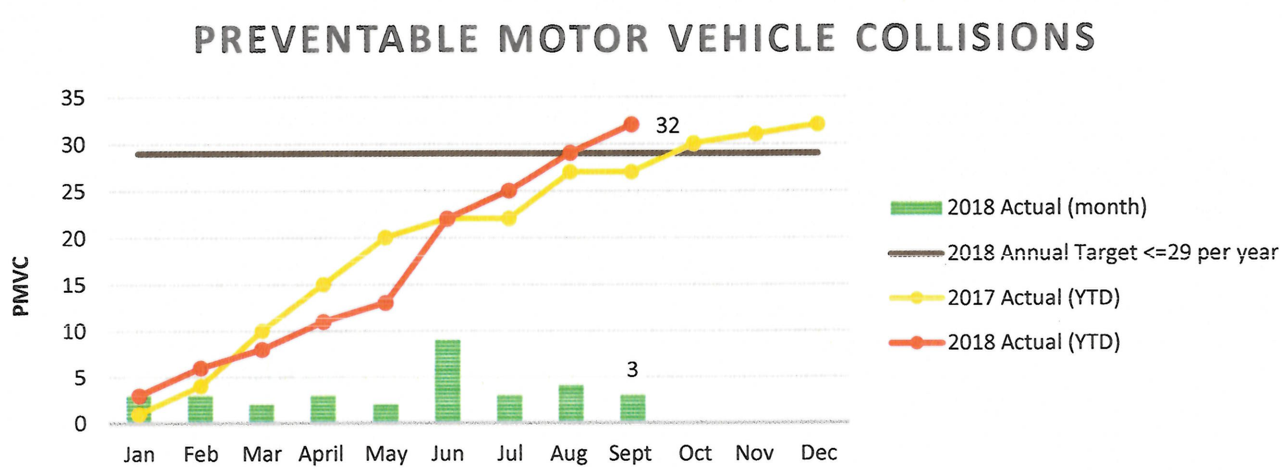
HUMAN RESOURCES

HIRING STATISTICS

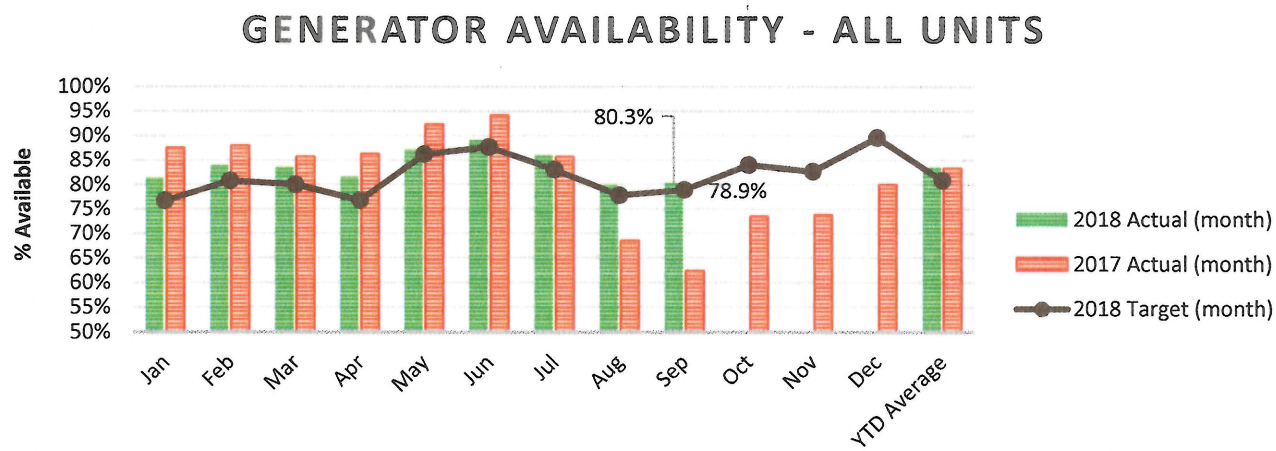
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average Hiring Cycle	16	24	25	27	30	30	31	30	32			
Vacancy Rate Month End	7.9%	8.8%	9.1%	8.6%	8.4%	9.5%	9.8%	9.0%	7.6%			

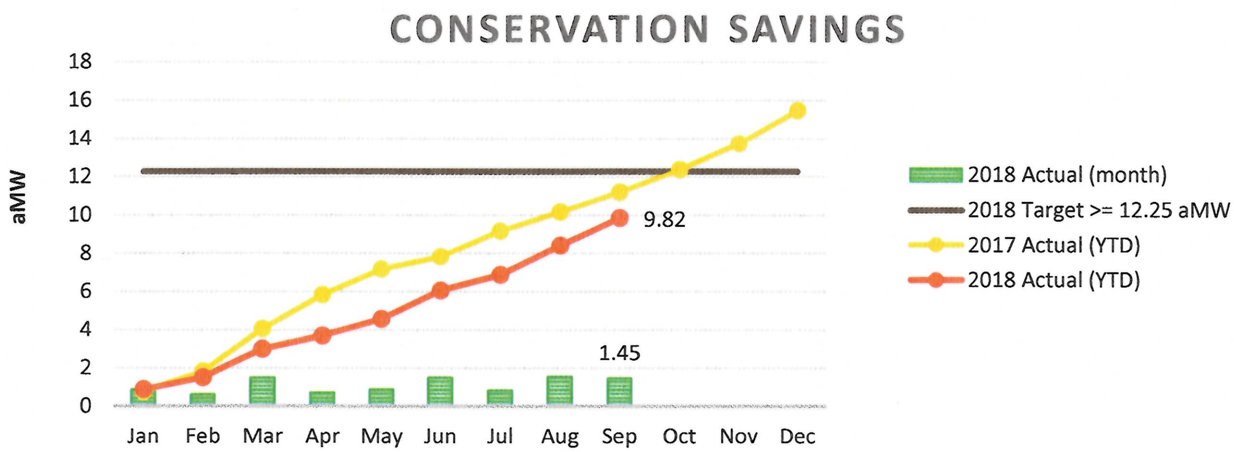
SAFETY



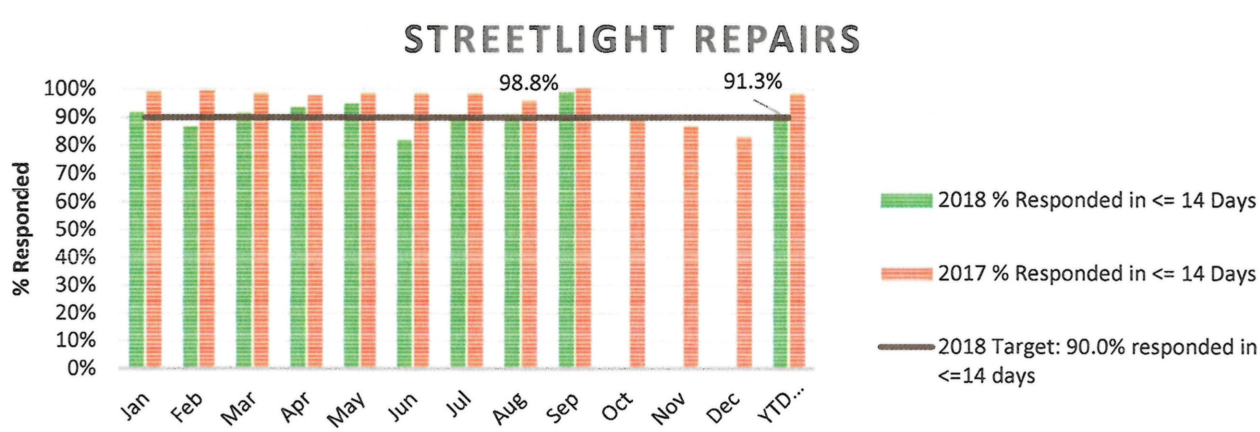


POWER RESOURCES





CUSTOMER CARE



Seattle City Light

Risk Oversight Status Report
As of Oct 24, 2018

Summary

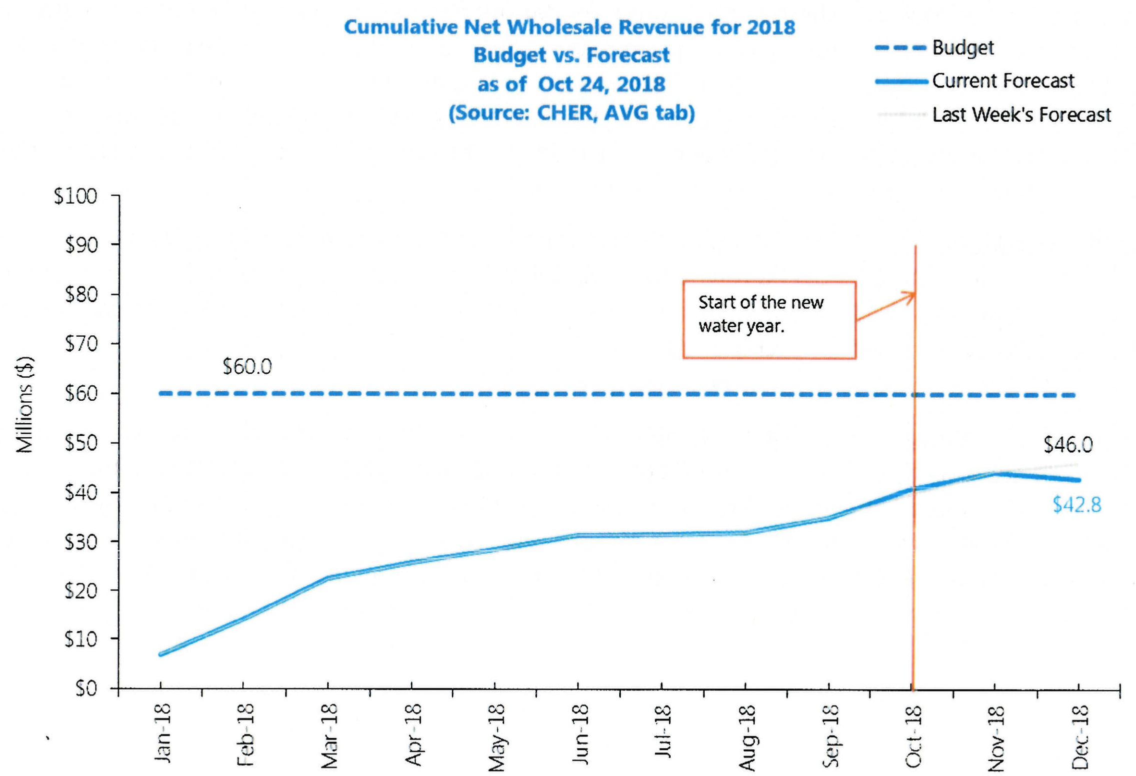
	5 Year Average	2018 Average	% of 5 year Average
SCL Hydro Generation	724 MW	699 MW	97%
Market Prices (Peak Hours)	$29.91	$37.96	127%

SCL Hydro Generation: This shows the total average generation per hour for Seattle City Light's three major hydroelectric resources (Skagit, Boundary, and BPA Block). For the 2018 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 2013-17. The percent of 5-year average shows the generation for the current year relative to the 5-year average.

Market Prices – Peak Power: 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 2018 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 2013-17. 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 2018 NWR budget of $60MM with latest NWR forecast of $42.8MM. The NWR forecast decreased by $3.2MM from the previous forecast of $46MM due to lower resource for the balance of the year accounting for $5.2MM, countered by higher current month accounting for $1MM and higher prices accounting for $1MM.

Chart 1



Policy Compliance

Tail Risk Limit	Prompt Month & Within Month Limit	Forward Month's Resource Requirement Limit	Forward Sales Limit	Pyhsical 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))*

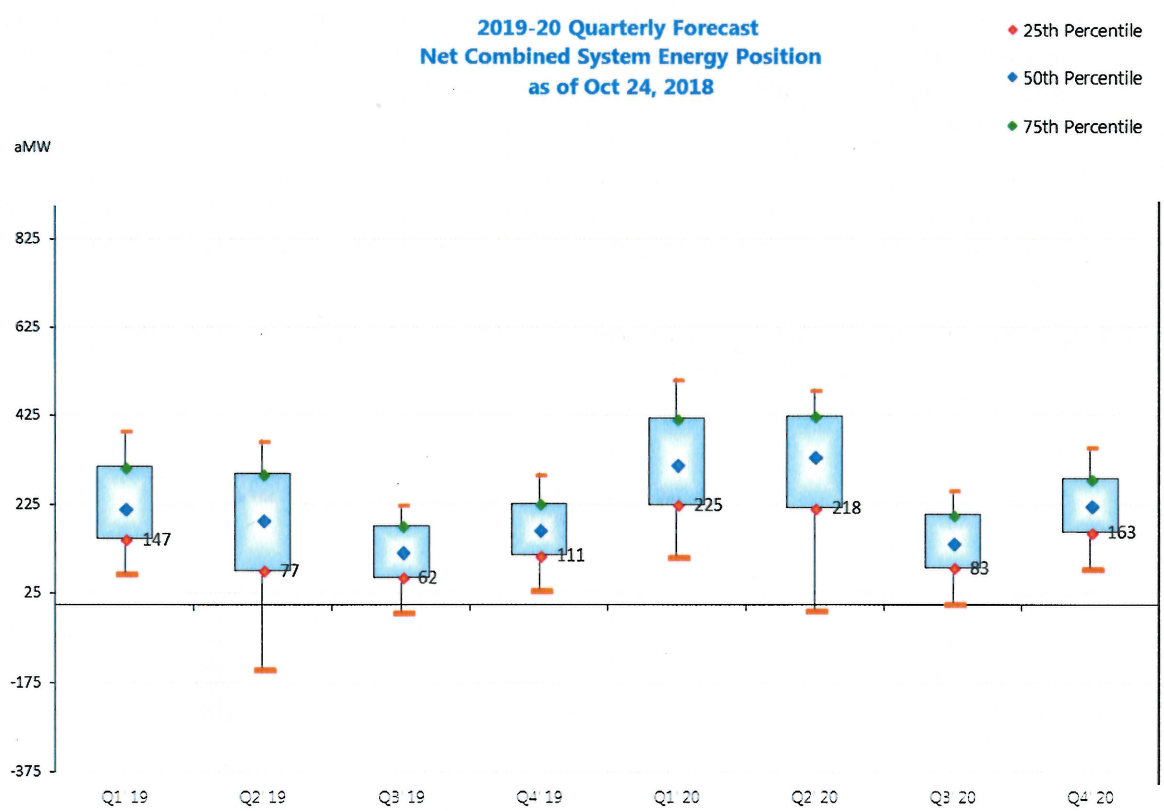
Hedging Plan & Position Status

Hedge Plan 2018, Phase 4 was last proposed and approved by the Risk Oversight Council on Sep 21, 2018.

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 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



5% Tail Risk Metric, 2018

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.

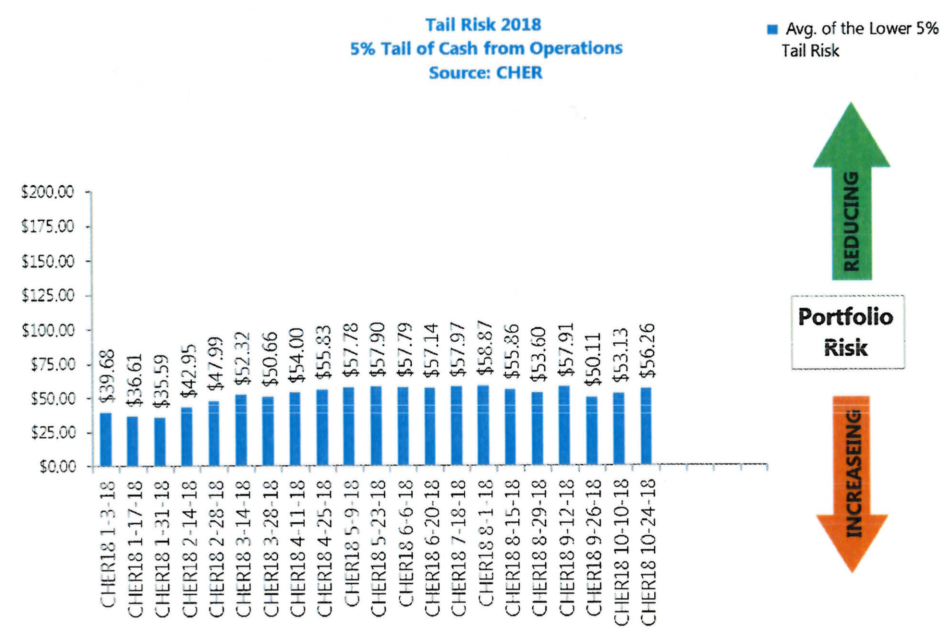
In 2011, the Rate Stabilization Account (RSA) became operational. The RSA is a cash reserve that is used to buffer the Utility from uncertainty in wholesale energy revenue. If the RSA becomes depleted, it is replenished via retail rate surcharges. The RSA significantly mitigates City Light's financial (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 2018. The current projection of a worse case of Cash from Operations is $56.26MM.

Chart 3



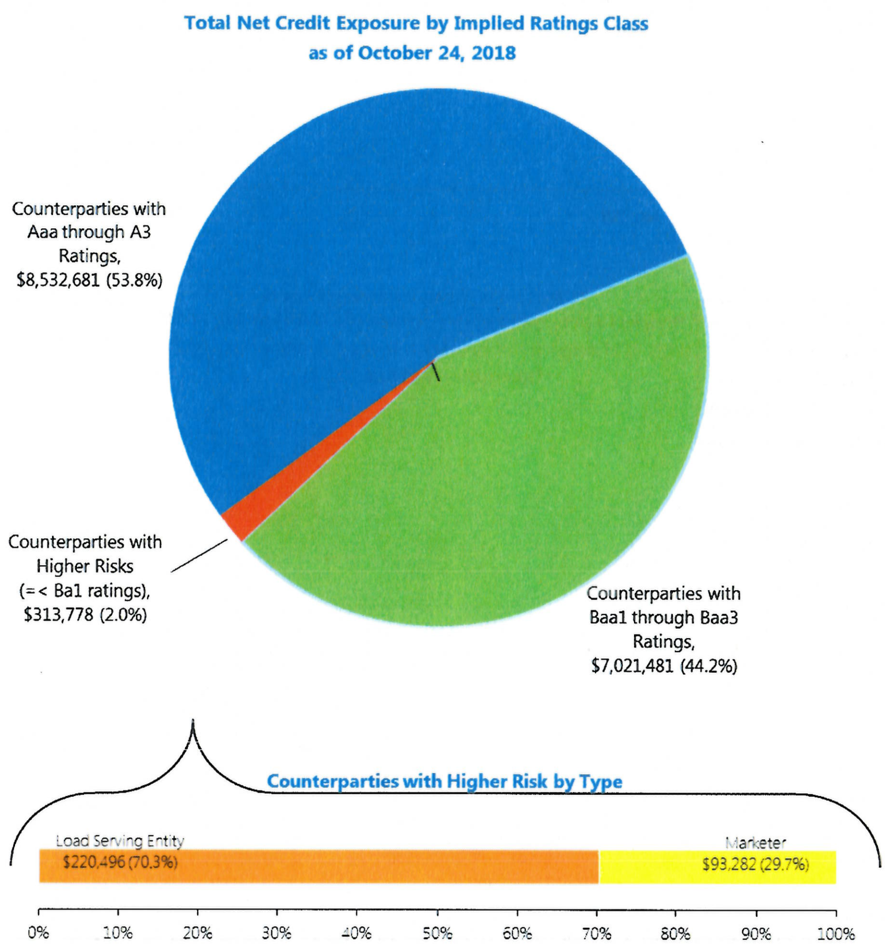
Credit

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 'Ba1' 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.

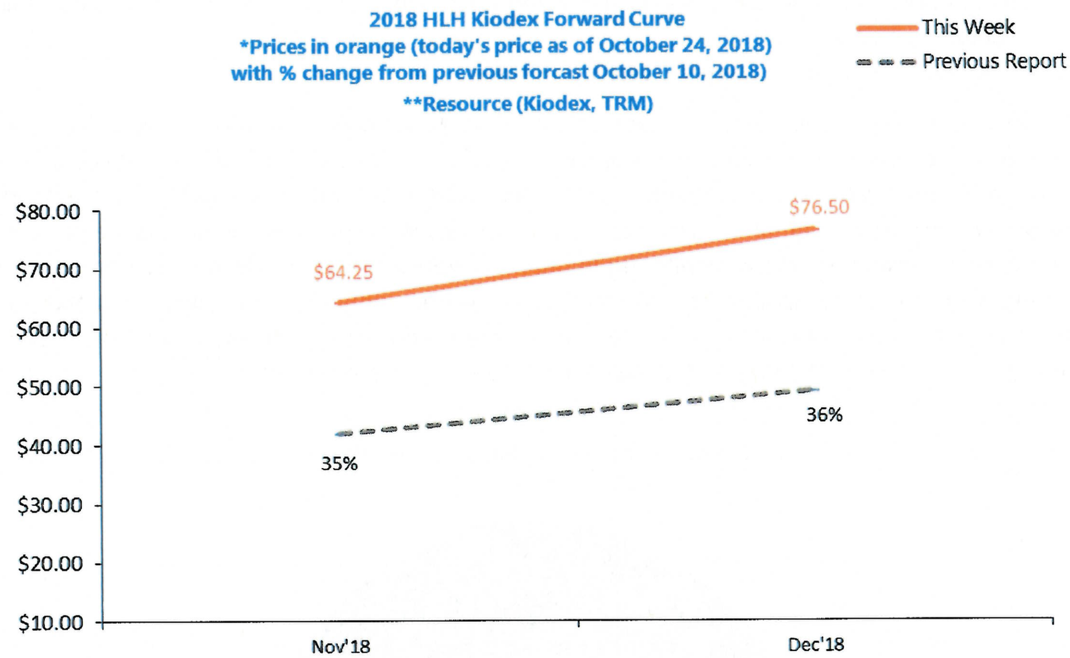
Chart 4



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 2018 and 2019.

Chart 5



Compared to the previous report, prices for 2019 increased by 15% and increased by 14% for 2020.