Seattle City Light

MEMO

JANUARY 19, 2018

TO
Jenny Durkan, Mayor
Seattle City Council

FROM
James L. Baggs, Interim General Manager and CEO

SUBJECT
Financial Update – November 2017

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 1.8 times or greater.

2017 debt service coverage is forecast to come in at 1.84, slightly above the target of 1.8x. This is higher than estimated at the beginning of the year, primarily because of higher first half 2017 retail sales due to the cold winter and associated higher heating load. More detail is included in the following sections.

2017 Financial Highlights			
	Forecast[1]	**Target[2]**	**Variance**
Retail Revenue ($ in millions)	$852.2	$850.8	$1.4
Net Wholesale Revenue ($ in millions)	$50.4	$60.0	($9.6)
Debt Service Coverage	1.84	1.80	0.04
The Rate Stabilization Account (RSA) cash balance was $90.3 million as of November 30, 2017. A 1.5% surcharge has been in effect since August 1, 2016. The surcharge will remain in effect through at least Q1 2018.			
O&M costs are under budget			
CIP costs are under budget			

[1] Forecast includes actual financial results through November 2017.

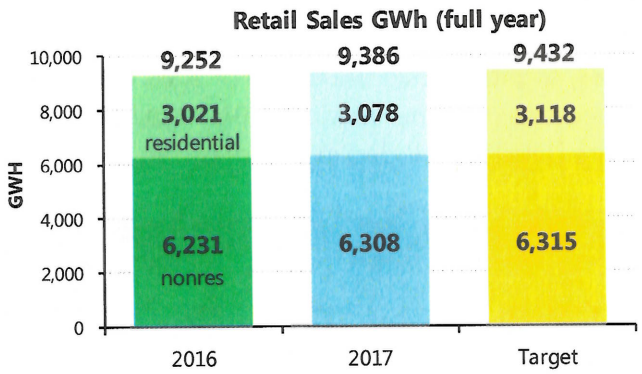
[2] Target is based on the assumptions used to set the 2017-2018 adopted rates, which are consistent with 2017-2022 Strategic Plan assumptions.

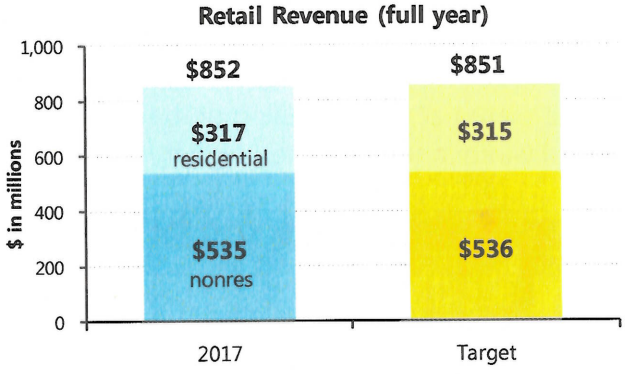
RETAIL POWER SALES AND REVENUE

YTD -- Retail sales (GWhs) were just 0.3% below target. Higher than normal heating sales due to colder than normal January and February temperatures were more than offset by lower than anticipated sales in subsequent months driven primarily by efficiency and conservation efforts. Excluding the impact of below average temperatures the total year-to-date sales variance is estimated to be 0.7% below target.

Full Year -- Retail sales (GWhs) are expected to be 0.5% lower than target. The target is based on a forecast of retail sales dating to 2015. As stated above, year-to-date sales are slightly below target. For the balance of the year non-residential sales are forecasted to be 0.9% higher than target but residential sales are forecasted to be 6.1% lower than target.

2017 retail revenue is expected to come in $1.4 million or 0.2% above target. The reason revenue is higher than target when sales (GWh) are lower than target is primarily explained by more residential sales being billed at the more expensive residential second block rate, mostly due to the cold winter. The higher revenue was partly offset by the $0.0014 per kWh BPA pass through credit effective October 1st.

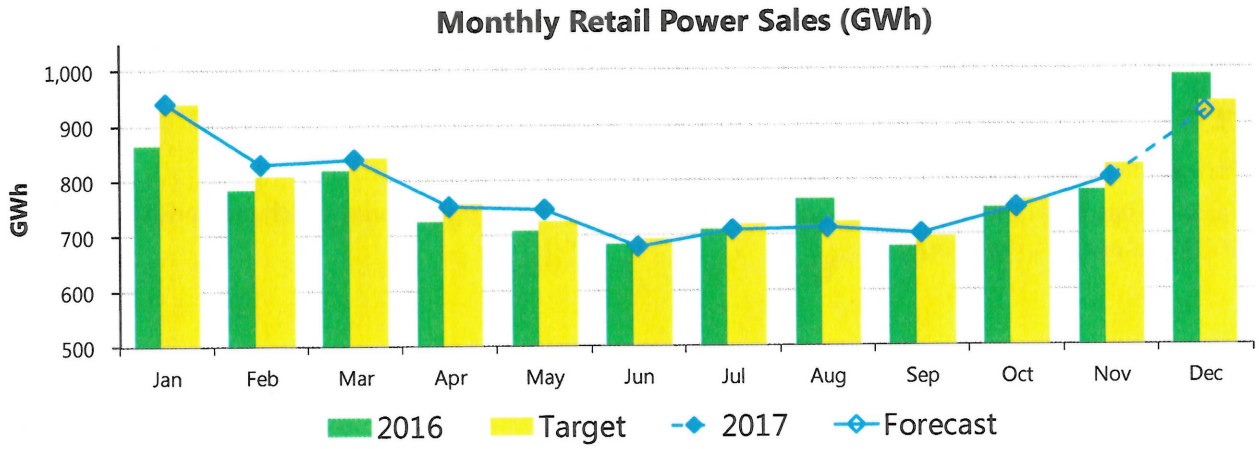




Retail Sales GWh (full year)			
	Nonresidential	Residential	Total
2017 vs. Target	(0.1%)	(1.3%)	(0.5%)

Retail Revenue (full year)			
	Nonresidential	Residential	Total
2017 vs. Target	(0.2%)	0.7%	0.2%

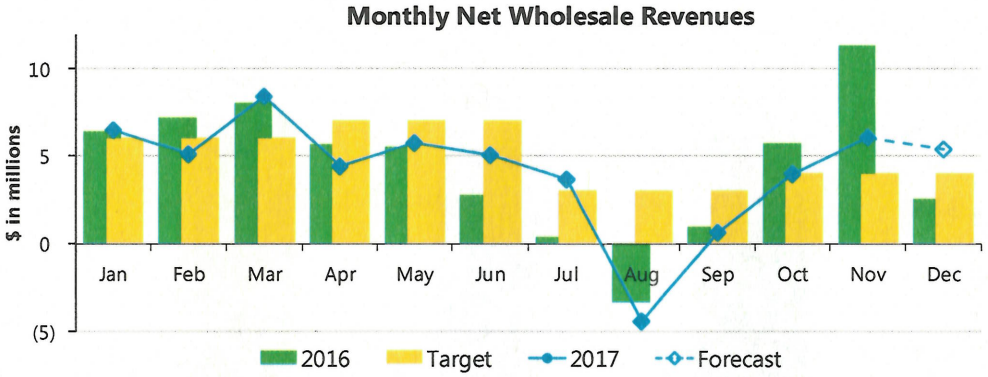
Changes in monthly retail sales to date are driven largely by the weather.



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. Net short-term wholesale energy sales fluctuate with changes in water conditions, retail sales and economic factors such as the price of natural gas. The RSA buffers any NWR-to-target variance so actual NWR does not impact debt service coverage.

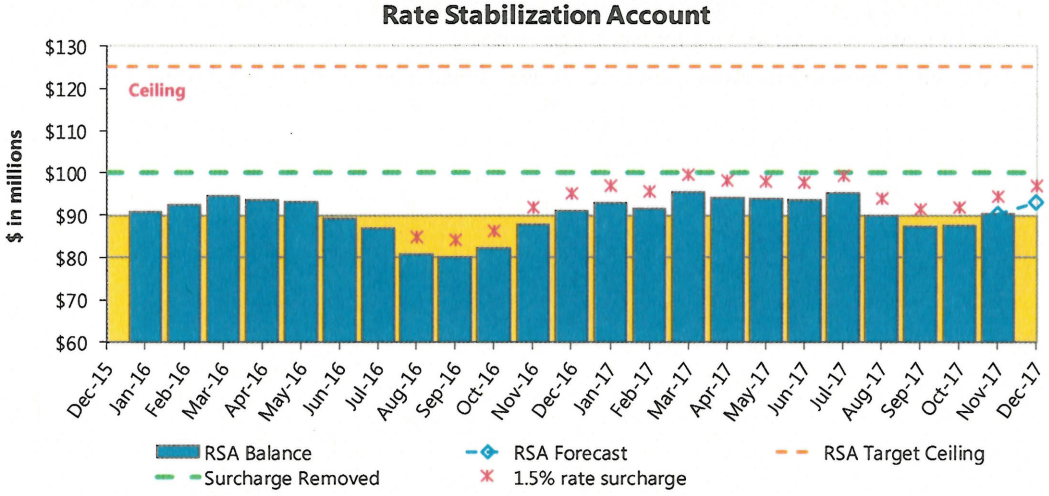
$ in millions	2016	2017	Target	Variance Y/Y	Variance Target
Full Year	$53.2	$50.4	$60.0	($2.8)	($9.6)
YTD	$50.7	$45.0	$56.0	($5.6)	($11.0)



As of December 13, 2017	5 Year Avg	2017 Avg	% of 5 Yr Avg
SCL Hydro Generation (GWh)	8,652	8,742	101%
Market Prices (On-Peak Hours)	$29.32	$25.50	87%

RATE STABILIZATION ACCOUNT

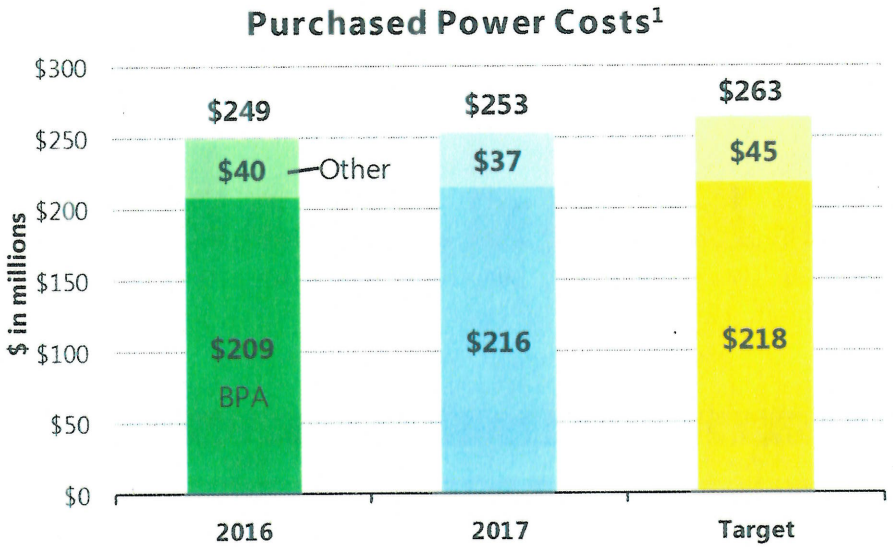
The Rate Stabilization Account (RSA) cash balance was $90.3 million as of November 30, 2017. A 1.5% surcharge has been in effect since August 1, 2016. On July 31, Full Council passed an ordinance approving the sale of the 8th and Roy Street property. The ordinance authorizes City Light to allocate such portion of the proceeds of the sale as may be necessary to replenish the rate stabilization account to the level that any existing rate surcharge may be removed and up to an additional $10 million to establish a buffer against a future surcharge condition. The sale is currently forecast to occur in Q2 2018.



PURCHASED POWER COSTS (NET)

Total purchased power costs (net) are forecast to end the year $9.7 million or 3.7% lower than target. The favorable variance is driven primarily by non-BPA power costs, which are expected to be approximately $7.8 million under target due to lower power production and associated costs from the Stateline Wind Project, as well as higher power marketing revenue from reserve and transmission sales.

BPA power and transmission costs are expected to be $1.9 million under target. New BPA rates and City Light's conversion to an all-Block product was effective October 1, 2017. The 2017 net impact of switching to a lower cost all-Block product and a higher than planned increase to BPA power rates is a cost reduction of $1.0 million compared to the target.



Full Year Variances	BPA	Other	Total
2017 Forecast vs. 2016	3.6%	(7.3%)	1.8%
2017 Forecast vs. Target	(0.9%)	(17.2%)	(3.7%)

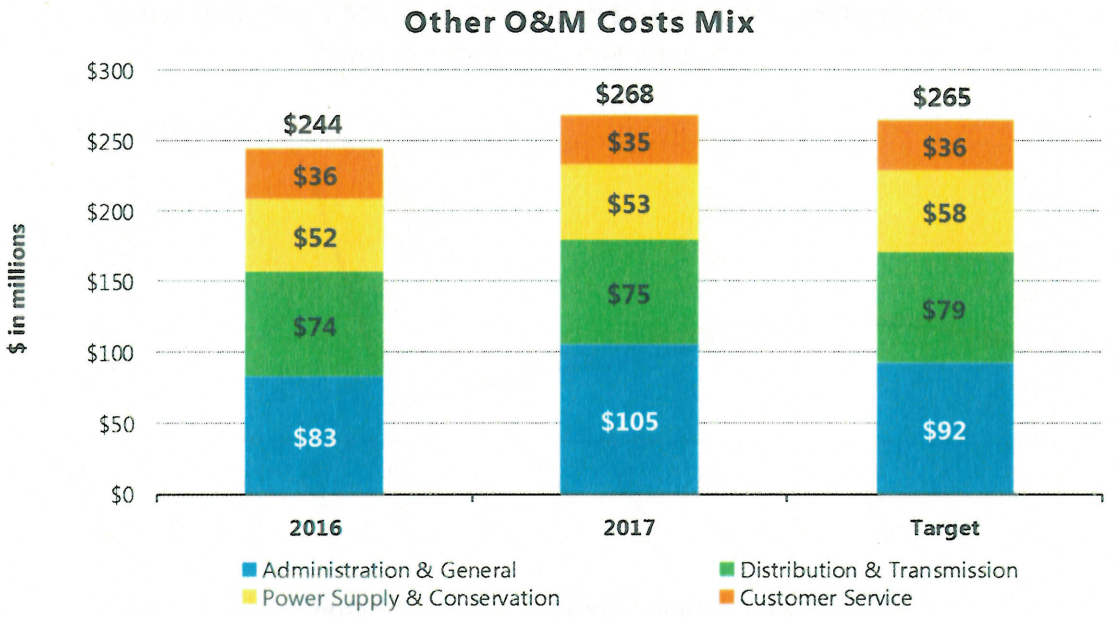
$/MWh[2]	BPA	Other	Total
2016	$32.4	$19.4	$27.3
2017	$31.7	$20.6	$27.7
Target	$34.0	$27.5	$32.0

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

[2]Cost of long-term purchased power (excludes wheeling and power related revenue).

OTHER O&M COSTS

Other O&M costs are forecast to end the year $3.1 million or 1.2% higher than target. Note the O&M target was set using planning assumptions that were locked in before City Light's final 2017 O&M budget was adopted. The 2017 adopted budget was higher than anticipated largely due to uncontrollable factors, such as higher labor benefit costs, unanticipated FAS monthly financial management costs and Seattle IT cost increases.



Full Year Variances	Administration & General	Distribution & Transmission	Power Supply & Conservation	Customer Service	Total
2017 Forecast vs. 2016	27.3%	0.7%	2.7%	(2.9%)	9.6%
2017 Forecast vs. Target	14.3%	(5.1%)	(8.8%)	(2.7%)	1.2%

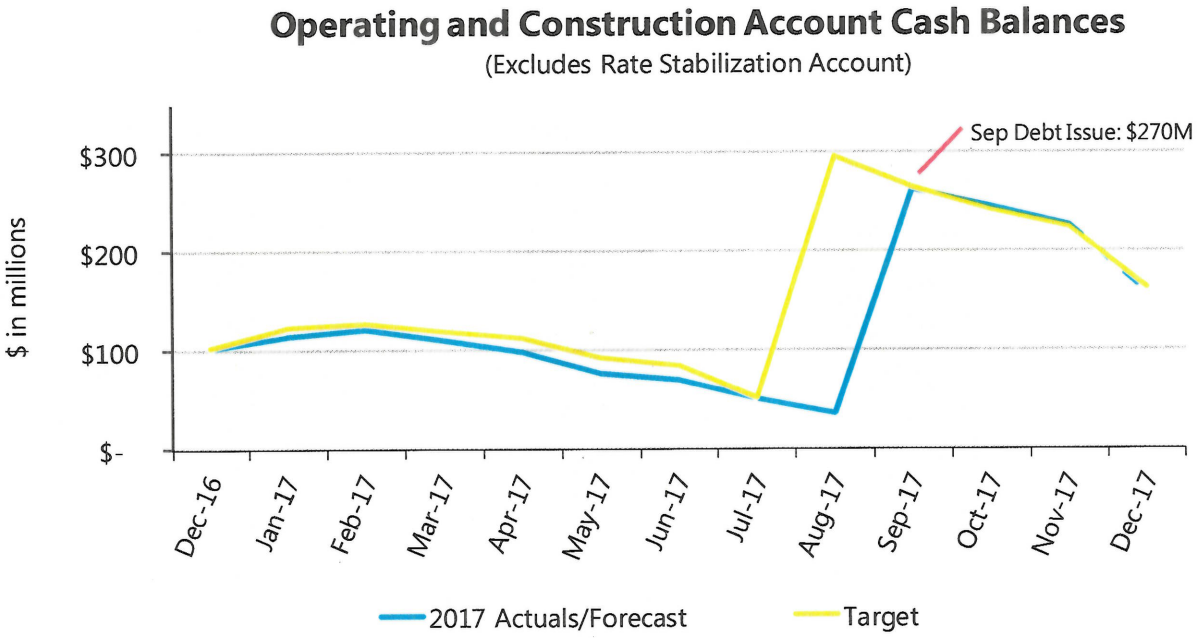
DEBT SERVICE

2017 principal and interest payments are forecast to be $2.8 million, or 1.3%, lower than target due to lower interest costs on newly issued debt.

Full Year Variances	2016	2017	Target
Debt Service ($ in millions)	$196.6	$203.4	$206.2

OPERATING AND CONSTRUCTION ACCOUNT CASH BALANCES

As of November 30, 2017, City Light's operating plus construction account cash balance was $225.8 million. The 2017C fixed rate bond series was issued on September 28th. Net proceeds will be used to refund previously issued series 2011A bonds ($164 million) and to fund City Light's Capital Improvement Plan ($270 million). The present value of the interest savings over the life of the refunded bonds is approximately $19 million.



SUMMARY FINANCIAL RESULTS – FULL YEAR 2017

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

$ in millions	Forecast	Target	Variance	Page
Debt Service Coverage				
Retail Revenue	$852.2	$850.8	$1.4	2
RSA Surcharge Revenue[1]	$12.4	$10.3	$2.1	--
Net Wholesale Revenue	$50.4	$60.0	($9.6)	3
RSA Transfers (net)	($1.9)	($10.8)	$8.9	--
Other Revenue (expense)	($18.7)	($11.6)	($7.1)	--
Total Revenue	**$894.5**	**$898.8**	**($4.3)**	--
Purchased Power (net)	$253.3	$262.9	($9.7)	4
Other O&M	$267.8	$264.8	$3.1	5
Total Expense	**$521.1**	**$527.7**	**($6.6)**	--
Amount Available for Debt Service	**$373.4**	**$371.1**	**$2.3**	--
Debt Service	$203.4	$206.2	($2.8)	5
Debt Service Coverage	1.84	1.80	0.04	1
Other Metrics				
Net Income	$132.1	$113.2	$18.9	--
Debt to Capitalization Ratio	63.5%	64.1%	-0.7%	--
Liquidity				
Operating & Construction Cash @ November 30, 2017	$225.8	$224.2	$1.6	6
Rate Stabilization Account @ November 30, 2017	$90.3	$101.8	($11.4)	3

[1] The current forecast has the RSA surcharge in effect throughout 2017, whereas the target has it coming off in November 2017.

BUDGET

This section includes a summary of the 2017 adopted budget and current full year budget projections. Costs in the budget will often differ from those in the financial forecast because the budget sets spending authority whereas the forecast estimates expenses as they pertain to financial policies.

Budget Summary	YTD-Nov	Full Year - 2017		
$ in millions	Actuals	Projections	Budget	Diff
O&M				
Purchased Power	$283.3	$314.3	$339.5	($25.1)
Utility Operations & Administration	$388.5	$441.5	$462.6	($21.1)
Taxes and Debt Service	$292.4	$300.6	$303.8	($3.3)
O&M Total	**$964.2**	**$1,056.4**	**$1,105.9**	**($49.5)**
% of Annual Budget	87.2%	95.5%	100.0%	-4.5%
CIP				
Customer Focused	$98.1	$103.0	$126.9	($23.8)
Transmission and Distribution	$221.8	$237.6	$254.4	($16.8)
Financial Services	$12.6	$16.9	$23.5	($6.6)
Power Supply & Environmental Affairs	$107.0	$114.6	$167.3	($52.7)
CIP Total	**$439.5**	**$472.1**	**$572.0**	**($100.0)**
% of Annual Budget	76.8%	82.5%	100.0%	-17.5%
Total Budget	**$1,403.7**	**$1,528.5**	**$1,677.9**	**($149.4)**
% of Annual Budget[1]	83.7%	91.1%	100.0%	-8.9%

Purchased Power variance is due to a higher budget value set for short term purchased power (budget authority to cover purchased power for most hydro/price conditions).

Utility Operations and Administration expected $21.1 million under expenditure is primarily attributable to lower environmental clean-up spending and labor savings.

Taxes and Debt Service is projected to underspend by $3.3 million due to lower than projected interest payments offset by an increase in City occupation taxes.

CIP is currently forecast to underspend by $100 million at year-end due to lifetime projects that intend to underspend (typically 90%) and will carry forward unused funds into 2018.

[1] At this point in the year we would normally expect to have spent 92% of the annual budget.

Attachments: City Light Risk Oversight Status Report
Performance Metrics

cc: Mike Fong
Tony Kilduff
David Moseley
Ben Noble
Saroja Reddy
Greg Shiring
Michael Van Dyck

Seattle City Light

Risk Oversight Status Report
As of December 13, 2017

Summary

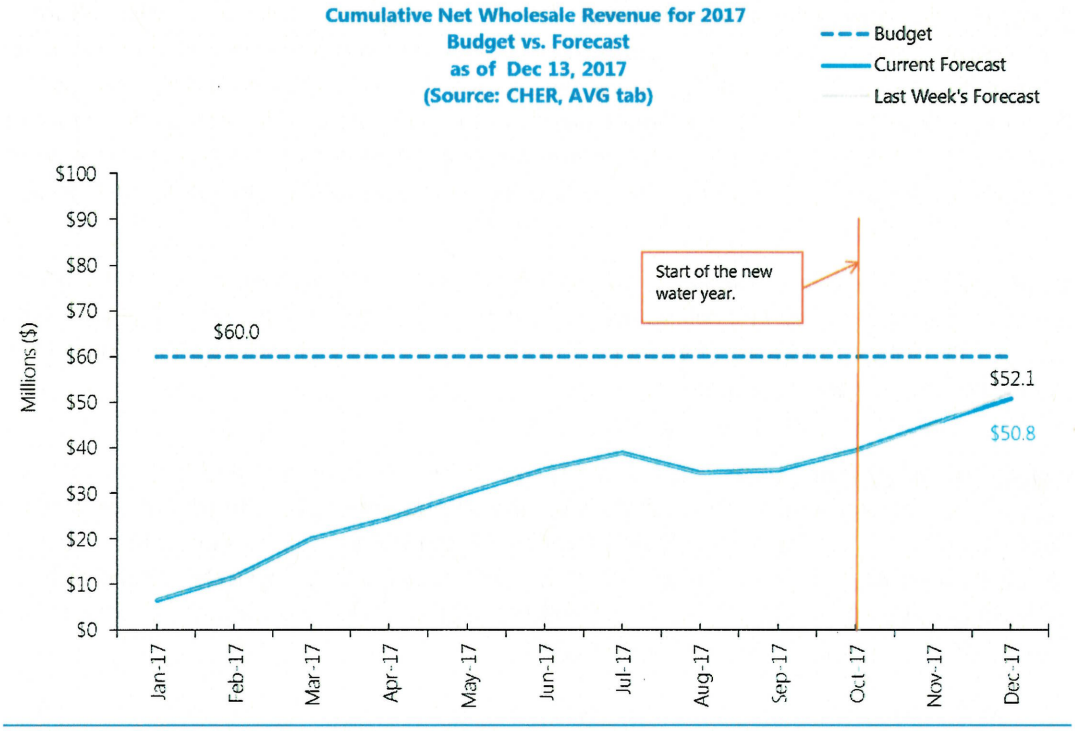
	5 Year Average	2017 Average	% of 5 year Average
SCL Hydro Generation	988 MW	998 MW	101%
Market Prices (Peak Hours)	$29.32	$25.50	87%

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 2017 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 2012-16. 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 2017 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 2012-16. 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 2017 NWR budget of $60MM with latest NWR forecast of $50.8MM. The NWR forecast decreased by $1.3MM from the previous forecast of $52.1MM due to lower forecast for the remainder of the year accounting for $1.6MM, countered by higher actuals for the previous month accounting for $0.3MM.

Chart 1



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))*

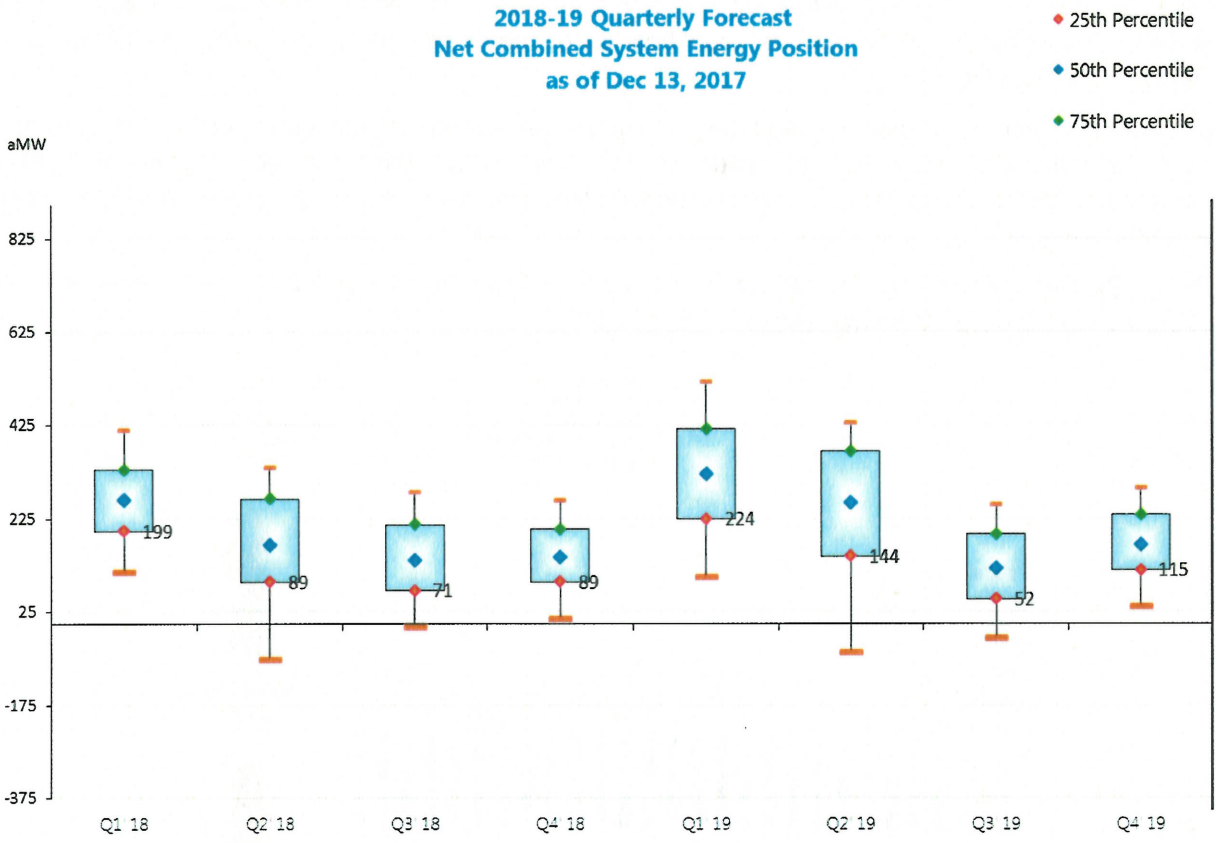
Hedging Plan & Position Status

Hedge Plan 2017, Phase 4 was last proposed and approved by the Risk Oversight Council on September 21, 2017.

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, 2017

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.

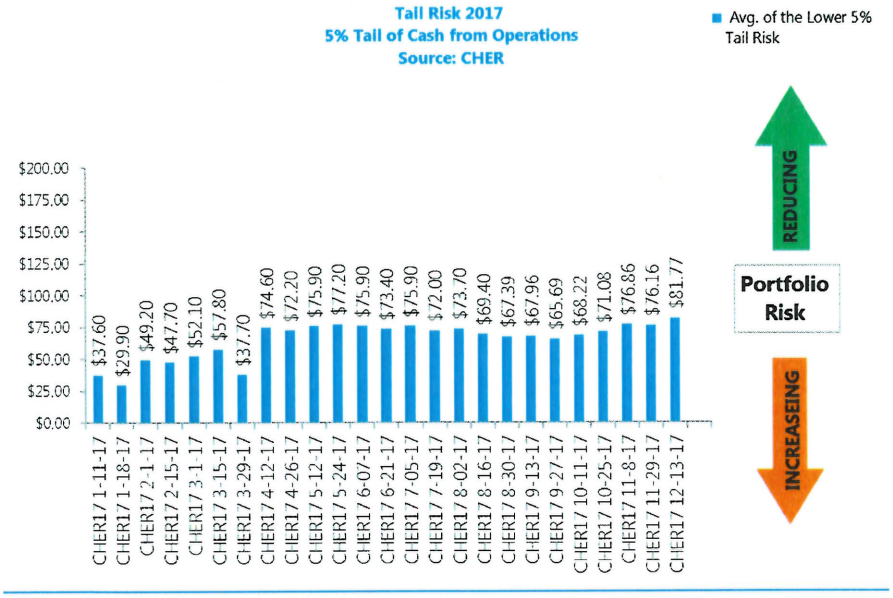
In 2011, the Rate Stabilization Account (RSA) became operational. The RSA is a cash reserve that is used to buffer the Utility from uncertainty in wholesale energy revenue. If the RSA becomes depleted, it is replenished via retail rate surcharges. The RSA significantly mitigates City Light's financial (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 2017. The current projection of a worse case of Cash from Operations is $81.77MM.

Chart 3



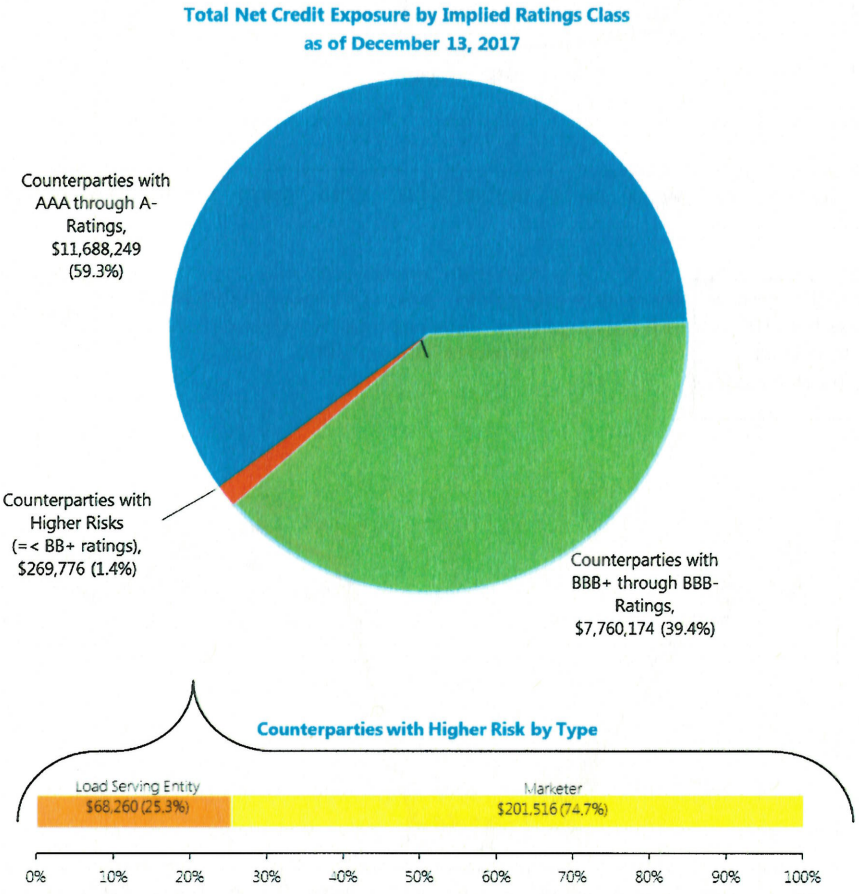
Credit

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.

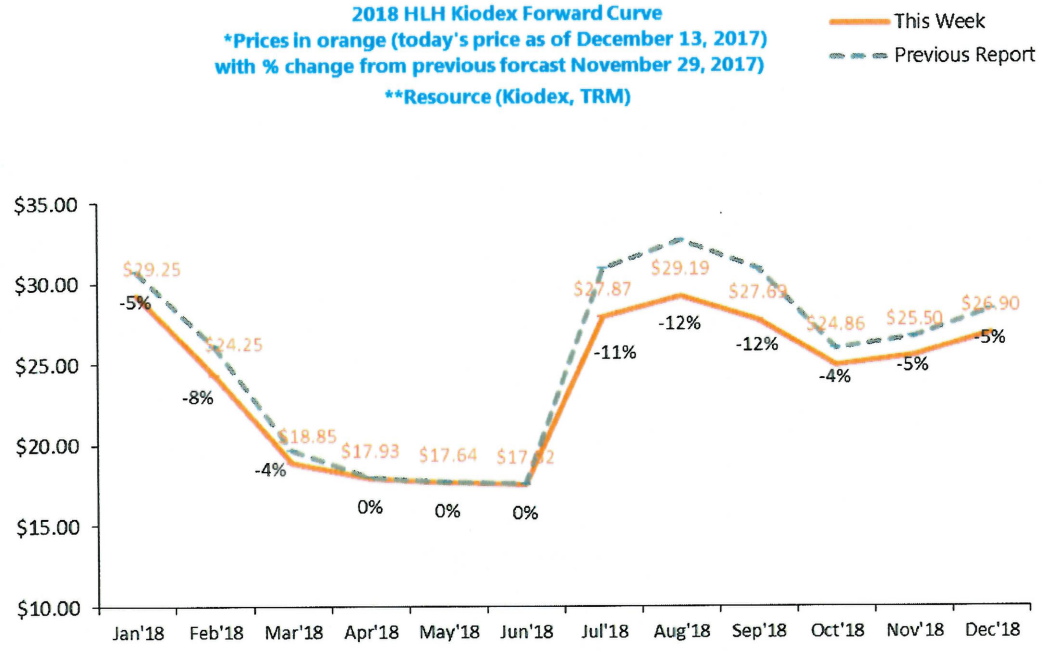
Chart 4



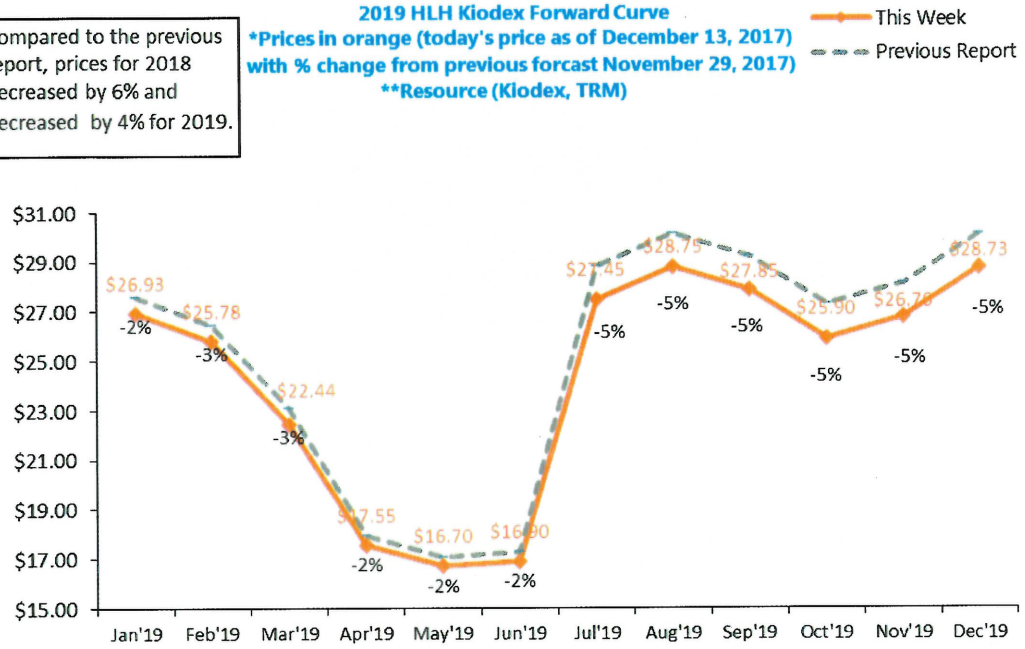
Price

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 2017 and 2018.

Chart 5



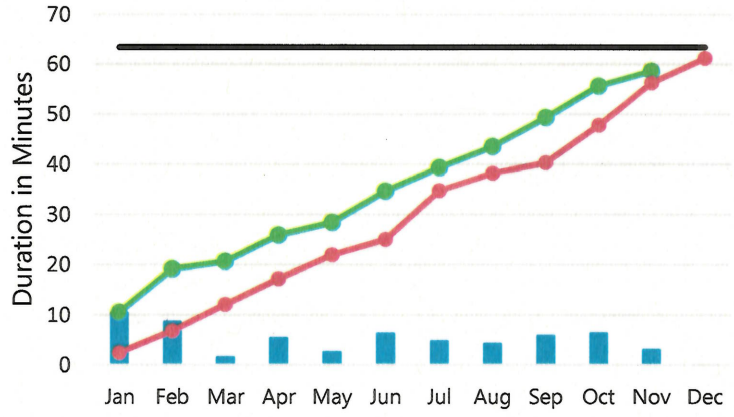
Compared to the previous report, prices for 2018 decreased by 6% and decreased by 4% for 2019.



Seattle City Light
Monthly Performance Metrics Report
November 2017

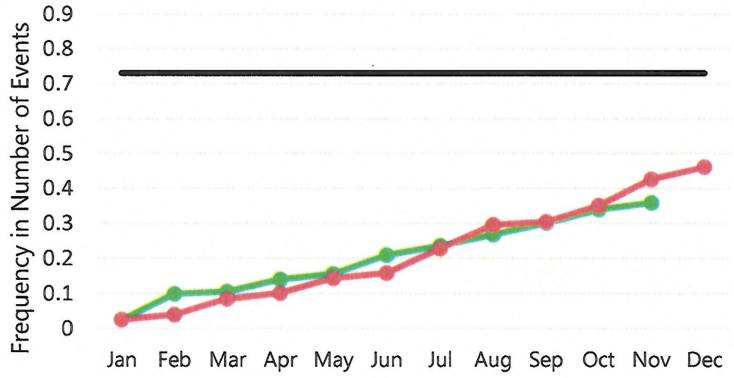
Distribution Operations

SAIDI



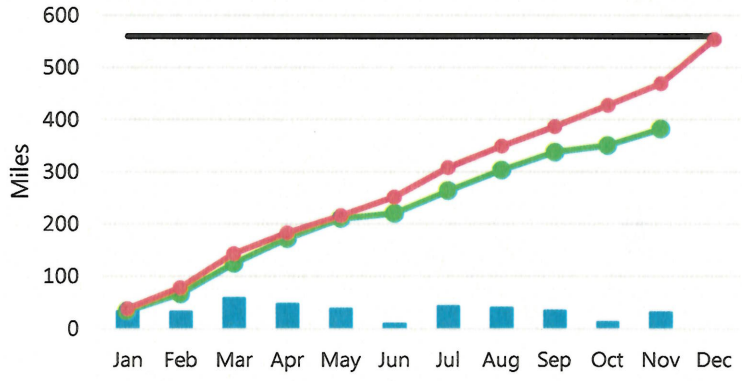
Current Month Actual: 3.0 minutes
Full Year Target: 63.4 minutes or less
Jan. – Nov. 2017: 58.5 minutes
Jan. – Nov. 2016: 56.1 minutes

SAIFI



Current Month Actual: .0193 event
Full Year Target: .73 event or less
Jan. – Nov. 2017: .3576 event
Jan. – Nov. 2016: .4243 event

Miles of Rights of Way Cleared



Current Month Actual: 31.6 miles
Full Year Target: 560 miles
(Combined T&D)
Jan. – Nov. 2017: 381.5 miles
Jan. – Nov. 2016: 468.4 miles

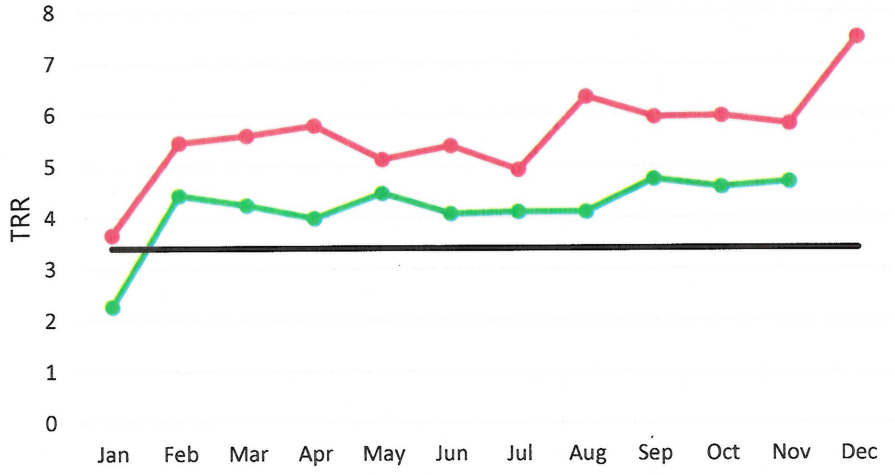
Human Resources

Hiring Statistics

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average Hiring Cycle	24	24	26	28	28	32	31	31	31	31	31	
Vacancy Rate Month End	6.7%	6.3%	6.8%	6.9%	7%	7.1%	7.4%	6.7%	7.1%	7.3%	6.9%	

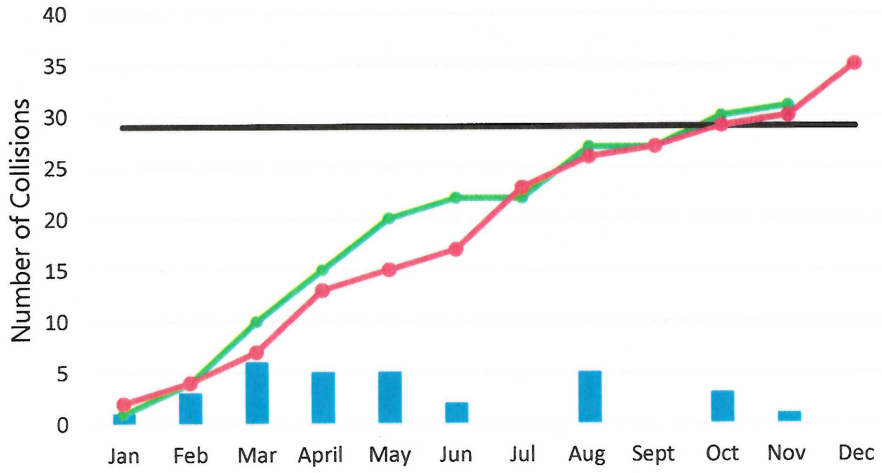
Safety

Total Recordable Incident Rate (TRR)



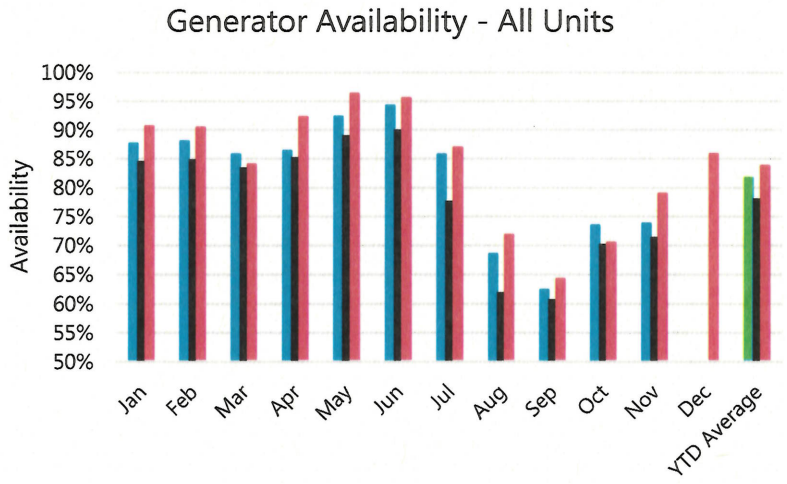
Full Year Target: 3.40
Jan. – Nov. 2017: 4.68
Jan. – Nov. 2016: 5.80

Preventable Motor Vehicle Collisions

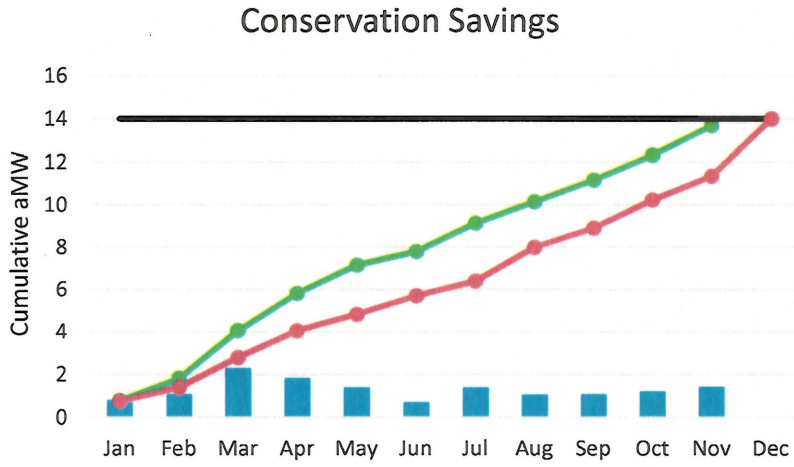


Current Month Actual:
3 collisions
Full Year Target:
29 or fewer
Jan. – Nov. 2017:
31 collisions
Jan. – Nov. 2016:
30 collisions

Power Resources



Current Month Actual: 73.8%
Current Month Target: 71.5%
Jan. – Nov. 2017: 81.6%
Jan. – Nov. 2016: 83.7%



Current Month Actual: 1.37 aMW
Full Year Target: 14 aMW
Jan. – Nov. 2017: 13.67 aMW
Jan. – Nov. 2016: 11.30 aMW

Customer Care

Current Month Actual:
Responded to 86.5% of tickets in 14 days or less.
Full Year Target:
Respond to 90% of tickets in 14 days or less.
Response Avg. Jan. – Nov. 2017: 96.5%
Response Avg. Jan. – Nov. 2016: 94.2%