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Research Update:

Seattle's Series 2025 Municipal Light And Power Bonds Assigned 'AA' Rating; Outlook Is Stable

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Overview

- S&P Global Ratings assigned its 'AA' rating to Seattle's $438.6 million series 2025 municipal light and power improvement and refunding revenue bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating and underlying rating (SPUR) on Seattle's electric system revenue bonds outstanding. The utility does business as Seattle City Light (SCL).
- The outlook is stable.

Rationale

Security

Seattle pledges the electric system's net revenue to the bonds. The city will use bond proceeds to finance electric system capital improvements, and to currently refund various SCL bonds outstanding. SCL had $2.68 billion of debt outstanding as of Dec. 31, 2024.

Credit highlights

The 'AA' rating reflects SCL's ability to sustain robust coverage and liquidity through various hydrological and economic conditions, coupled with financial projections that indicate the maintenance of similarly strong levels. This is offset somewhat, in our view, by the utility's concentration in hydroelectric generation, from both owned assets and power purchases. This concentration exposes the utility to uneven surplus sales given fluctuations in hydrology.

The rating further reflects our view of the following strengths:

- The maturity and diversity of SCL's generally affluent, mature, and diverse service area, coupled with its stable customer base, contribute to credit stability.
- Management maintains several credit supportive policies and programs, such as a rate stabilization account (RSA) and accompanying rate adjustment mechanism, that help offset

some of the impacts of hydrological variability. Management has also adjusted its policies to promote financial stability; it recently adjusted its internal debt service coverage target from an average of 1.8x to a minimum of 1.8x.

These strengths are offset somewhat by the following factors:

- SCL expects the system will experience significant load growth over the next 20 years, in contrast to its historically flat load profile. Management primarily attributes this shift to the proliferation of electrification within the utility's service territory. In turn, the forecast growth translates to additional planning challenges, as SCL must balance the reliability, affordability, and carbon attributes of new prospective resources. Management anticipates it will need to procure additional firm power resources that are non-carbon emitting to support forecast load growth, which translates to potential intermittency challenges as well as both timing and cost uncertainty for the utility.
- On the heels of the forecast growth, management projects at least 5% annual rate increases through 2030, but indicated that actual rate increases could be much higher following a refresh of the department's resource and strategic plans. These rapidly rising rates could make affordability challenging for SCL's customers.
- SCL's sizable capital plan contemplates $2.4 billion in spending from 2025-2029, which could further pressure affordability and/or financial metrics. The plan is predominantly composed of distribution investments, but with growing power supply expenses in future years.

Environmental, social, and governance

SCL's environmental factors are credit neutral. SCL predominantly sources its power through non-carbon-emitting hydroelectric resources, which limits the utility's exposure to many challenges of legislative and regulatory initiatives to reduce greenhouse gas emissions. The utility is compliant with Washington's renewable portfolio standard (I-937) and is well positioned to comply with its decarbonization bill, the Clean Energy Transition Act, through its existing low-carbon portfolio (north of 90% of identified carbon-free resources in 2023), eligible energy purchases, demand management and efficiency programs, and the acquisition of renewable energy credits as needed. We believe the continued costs of complying with mandates will be manageable, given management's proactive approach and the existing portfolio of assets, but will closely monitor the impact of new, potentially higher priced, energy resources. However, SCL's reliance on a network of hydroelectric dams exposes the utility to potentially substantial ongoing remediation costs for fish passage and habitats. In addition, we consider physical climate risk as slightly elevated, given that the city is adjacent to Puget Sound and is exposed to storm surges and other extreme events related to sea-level rise.

Seattle's primarily dense urban nature insulates its core service territory from wildfire risk. However, SCL maintains a number of hydroelectric projects and associated transmission lines that are in more fire-prone areas. The utility maintains a wildfire risk reduction strategy document, which includes various measures management undertakes to reduce wildfire risks related to these assets, such as weather forecasting, enhanced design and construction standards, fuel and vegetation management, and asset management and inspection.

We view SCL's social factors as credit neutral. The utility's weighted-average electric rates are above the state average, indicating potential affordability challenges. However, the service area's above-average incomes, the nominally low electric rates, and the utility's low-income utility discount program mitigate this risk. We will continue to monitor rate affordability as SCL raises rates to address rising operating, energy, and capital costs.

We are also monitoring the strength and stability of electric utilities' revenue streams given inflationary pressures on electricity prices (which have outpaced the broader Consumer Price Index inflation rate), reflecting higher operating and debt costs due to investments in emissions reductions, load growth, and climate resilience. We anticipate that substantial and sweeping tariffs could also pressure electricity prices as utilities source costlier materials and components critical to the sector's build cycle. Coupled with the high degree of unpredictability around federal policy, the economy's stressors and the associated financial pressures consumers are facing, including diminished consumer confidence and expectations of rising inflation and unemployment, might make it more difficult for rate-setting bodies to harmonize the interests of utilities, their customers, and their investors, which could negatively affect utilities' financial metrics. (See "U.S. Economic Outlook Update: Higher Tariffs And Policy Uncertainty To Weaken Growth," published May 1, 2025, on RatingsDirect.)

Finally, we view the system's governance factors as credit supportive, as they include full rate-setting autonomy; strong policies and planning, including robust cybersecurity risk mitigation and proactive management of hydrology risk; and robust interaction between management and the city council.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that SCL will maintain liquidity and fixed charge coverage (FCC) in line with projected levels through rate-stabilization policies, rate increases, and continued conservative revenue forecasting.

Downside scenario

We could lower the rating if rising debt service requirements, sustained adverse hydrological conditions, increasing power supply costs from the Bonneville Power Administration (BPA) or prospective resource additions, and/or increased spending on regulatory compliance result in materially higher retail rates or a weakened competitive position that frustrates SCL's ability to maintain liquidity and achieve FCC commensurate with forecast levels.

Upside scenario

We do not expect to raise the rating in the next two years, given SCL's large capital improvement plan and additional debt, coupled with forecast demand growth for which the utility will need to procure additional resources that have yet to be identified.

Credit Opinion

With more than 510,000 customers, SCL is the largest municipal utility in the state of Washington. It provides service within Seattle and surrounding areas of King County. The utility's predominantly hydroelectric power supply portfolio is low cost and virtually carbon free. It provides power to a stable customer base with access to a broad and diverse economy with low industrial concentration and stable economic fundamentals. We believe these factors contribute to SCL's economies of scale and provide the utility with revenue stability and operational flexibility.

SCL sources most of its power from a combination of owned hydroelectric resources and hydroelectric power purchased from the BPA. Management said it expects to transition from a shaped block customer to a hybrid block and slice BPA customer upon its contract renewal in

2027, which should give the utility more flexibility as it plans to meet rising electric demand. While SCL's operational profile is highlighted by its primarily hydroelectric assets that are high quality and low cost, the concentration in hydroelectric resources exposes the utility to above-average price volatility with respect to surplus sales. However, SCL's RSA and cost adjustment offset this risk somewhat. The utility's most recent integrated resource plan explores the addition of relatively higher-priced wind and solar resources to address load growth and to maintain compliance with state renewable and decarbonization mandates.

We view favorably management's comprehensive risk management practices, which include long-term financial planning, capital planning, and a dynamic power supply management strategy that should position the utility well in the face of evolving state and federal regulations.

Due to conservative budgeting, management has reduced its reliance on, and potential revenue volatility from, surplus energy sales. A portion of wholesale net revenue comes from forward sales of typically nine months or less, and SCL maintains strict limits on the portion of its surplus position made available for forward sales to avoid potentially high replacement power costs in low-water years. S&P Global Ratings believes the system's risk management policies are conservative, and reduce the risk related to forward sales. Nevertheless, in below-average hydro years the system's net wholesale revenues can decline, translating to compressed margins.

In our view, management has established an excellent track record of rate setting, as evidenced by SCL's generally robust and stable financial metrics, further supported by the utility's two automatic pass-through mechanisms. However, according to information from the Energy Information Administration, Seattle's average overall rates exceeded the state average by about 18% in 2023, suggesting that despite solid demographics, there are some constraints to revenue-raising flexibility. Seattle's rate affordability and competitive position could erode, given currently projected annual rate increases of 5.0%-5.4% through 2030 (which management indicated could be higher as it refreshes its strategic plans). This risk is tempered, in our view, because SCL's nominal rates are favorable compared with those of other major cities.

SCL has exhibited generally robust financial performance but has experienced some variability due to changes in hydrological conditions, ranging from 1.57x-1.95x over the past three years. Our calculations based on management's projections suggest FCC will remain between 1.5x-1.7x, which is commensurate with the rating. We note that the utility's actual performance consistently meets or exceeds projected levels, highlighting management's conservative budgeting practices.

The utility's liquidity position is strong. When including the $68 million RSA, liquidity totaled $337 million as of Dec. 31, 2024, or about 145 days' operating expenses. SCL also has access to interdepartment loans from the city's cash pool of $3.8 billion, which the utility could access in the event of a liquidity emergency. Liquidity is projected to remain generally steady, at 148-163 days over the next three years.

Finally, SCL has a moderate debt burden, characterized by a 51% debt-to-capitalization ratio in fiscal 2024. The utility's five-year capital improvement plan totals $2.4 billion, with about 40% to be funded through operating revenue (after third-party contributions) and the remaining 60% through debt. Leverage is projected to remain largely in line with current levels.

Seattle, Washington--key credit metrics

	--Fiscal year ended Dec. 31--		
	2024	2023	2022
Operational metrics			
Electric customer accounts	513,504	503,221	493,663
% of electric retail revenues from residential customers	39	39	40
Top 10 electric customers' revenues as % of total electric operating revenue	15	16	16
Service area median household effective buying income as % of U.S.	153	153	151
Weighted average retail electric rate as % of state	115	115	116
Financial metrics			
Gross revenues ($000s)	1,331,500	1,255,400	1,289,300
Total operating expenses less depreciation and amortization ($000s)	886,700	821,144	767,200
Debt service ($000s)	250,600	246,800	230,241
Debt service coverage (x)	1.8	1.8	2.3
Fixed-charge coverage (x)	1.6	1.6	2.0
Total available liquidity ($000s)*	337,600	329,000	423,600
Days' liquidity	139	146	202
Total on-balance-sheet debt ($000s)	2,682,900	2,635,700	2,643,500
Debt-to-capitalization (%)	51	52	54

*Total available liquidity includes available committed credit line balances, where applicable. Debt service coverage--Revenues minus expenses divided by debt service. Fixed-charge coverage--Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy). N.A.--Not available.

Ratings List	
New Issue Ratings	
US$438.6 mil mun light and pwr imp and rfdg rev bnds ser 2025 due 02/01/2055	
Long Term Rating	AA/Stable
Ratings Affirmed	
Public Power	
Seattle, WA Retail Electric System	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.