S&P Global
Ratings

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Summary:

Seattle; Retail Electric

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Summary:

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Credit Profile		
US$263.68 mil mun lt and pwr imp and rfdg rev bnds 2021 ser A due 07/01/2051		
Long Term Rating	AA/Stable	New
US$101.0 mil mun lt and pwr imp and rfdg rev bnds 2021 ser B due 07/01/2051		
Long Term Rating	AA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA' rating to Seattle's $264 million municipal light and power improvement and refunding revenue bonds, 2021A and its $101 million municipal light and power refunding revenue bonds, 2021B (SIFMA Index). 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.

The 2021B bonds are being issued in variable-rate mode with a maximum interest rate of 12% The bonds have a mandatory tender feature, and in the event of a delayed remarketing will earn a stepped interest rate not to exceed the maximum interest rate.

Seattle pledges the light system's net revenue to the bonds. The city will use 2021A bond proceeds to finance various capital improvements and refund its 2011A bonds outstanding. The city will use 2021B-1 proceeds to refund its series 2018B-1 and 2018B-2 bonds outstanding.

Credit overview

The 'AA' rating reflects SCL's ability to produce stable coverage and liquidity through various hydrological and economic conditions, especially considering recessionary pressures stemming from the COVID-19 pandemic. Concentration in hydroelectric generation, from both owned assets and power purchases, exposes the city to some surplus sales risks, although it has built a rate stabilization account and accompanying rate adjustment mechanism to offset the potential effects of this variability. The maturity and diversity of the underlying service area and stable customer base contribute to credit stability, in our view.

The stable outlook reflects S&P Global Ratings' expectation that SCL will maintain its current liquidity levels through rate-stabilization policies and continued conservative revenue forecasting. The outlook further reflects our view that average fixed-charge coverage (FCC) will remain in-line with historical levels despite continued load loss due to the pandemic and recessionary pressures as well as conservation and efficiency measures.

Environmental, social, and governance

SCL predominantly sources its power through non-carbon-emitting hydroelectric and nuclear resources, which limits the utility's exposure to the costs and operational challenges of legislative and regulatory initiatives to reduce greenhouse gas emissions. However, SCL's reliance on a network of hydroelectric dams exposes the utility to potentially substantial ongoing remediation costs for fish passage and fish habitats. In addition, we consider environmental risk as slightly elevated, given that the city lies adjacent to Puget Sound and is exposed to storm surges and other extreme events related to sea-level rise.

Our rating incorporates our view of the health and safety risks from the COVID-19 pandemic. Absent the implications of COVID-19, we believe the utility faces social risk related to its relatively high rates compared with those of peers in the state. In our view, the service area's above-average income levels partially mitigate this risk.

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

Stable Outlook

Downside scenario

We could lower the rating if the city's additional leverage, rising power supply costs from Bonneville Power Administration (BPA), or recessionary pressures or demand loss result in materially higher retail rates or a weakened competitive position that frustrates SCL's ability to maintain liquidity and achieve FCC commensurate with recent years' 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 a financial forecast that indicates largely flat financial metrics against the backdrop of declining retails sales and annual rate increases.

Credit Opinion

With more than 470,000 customers, SCL is the largest municipal utility in the state of Washington. It provides service within Seattle and surrounding areas of King County, covering a population of about 940,000. The utility's predominantly hydroelectric power supply portfolio is low-cost and 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's operational profile is highlighted by its primarily hydroelectric assets that are high quality and low cost, with assets and purchased power supply through the BPA offering relatively low-cost supply; the concentration in hydroelectric resources exposes the city to above-average price volatility with respect to surplus sales, although has built a rate stabilization account and uses rate stabilization rate adjustment, offsetting this risk somewhat. We also view favorably management's comprehensive risk management practices, which include comprehensive long-term financial and capital planning, and a dynamic power supply management strategy that should position the utility well in the face of evolving state and federal regulations.

SCL's current portfolio renewable resources comply with Washington's Renewable Portfolio Standard (known as I-937). Management reported that current power contracts will be sufficient to meet the state's renewable mandate under a no-load growth scenario for the next decade. Management also reported that the utility is well positioned to satisfy the Clean Energy Transformation Act requirements of a 100% carbon-neutral electric service to retail load by 2030.

Management has taken steps to lower the utility's reliance on wholesale sales to reduce financial performance volatility, and intends to keep doing so. 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 adequately reduce the risk related to forward sales. Furthermore, as part of SCL's strategy, beginning in 2010, city council enacted a series of annual base-rate increases. It also established a rate stabilization account (RSA) to further offset potential revenue volatility. In our view, management has established an excellent track record of rate setting, as evidenced by SCL's historically robust and stable financial metrics, further supported by the utility's two automatic pass-through mechanisms.

Seattle's average overall rates are slightly above the state average, suggesting that despite solid demographics, there are some constraints to revenue-raising flexibility. The city automatically passes through cost fluctuations from BPA, and maintains an RSA surcharge that is automatically applied if the balance of its RSA drops below a certain level. While these mechanisms have supported very stable financial metrics, Seattle's competitive position has also eroded somewhat in recent years. However, the city's high income levels and relatively favorable rates compared with those of other large U.S. cities mitigate this somewhat, in our view.

SCL has exhibited consistently stable and generally robust financial performance, which support the 'AA' rating. FCC averaged 1.5x over the past three years. The utility's fiscal 2020 performance outpaced mid-year projections, highlighting management's conservative budgeting practices. Projections indicated ongoing maintenance of coverage near historical levels with only modest declines following COVID-19-related load loss and subsequent recovery.

The utility's liquidity has been similarly strong; When including the $96.8 million RSA, liquidity totaled $199 million as of Dec. 31, 2020, or over 100 days' worth of operating expenses. Management indicated the utility's reserve fund is currently $60 million overfunded and that this liquidity is available for any lawful purpose. However, SCL intends to use this money to replace a surety policy expiring in 2029.

Finally, SCL has a moderate debt burden, characterized by a strong debt and liabilities profile with a 60% debt to capitalization ratio. The utility's five-year capital improvement plan totals $2.27 billion, with about 40% to be funded through operating revenue and the remaining 60% through debt. Based on management's projections, we calculate debt to capitalization will improve to about 57% by 2022 as debt amortizes more rapidly than it is added.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of June 17, 2021)		
Seattle mun lt & pwr rev bnds		
Long Term Rating	AA/Stable	Affirmed
Seattle muni lt & pwr rfdg rev bnds		
Long Term Rating	AA/Stable	Affirmed
Seattle muni lt & pwr rfdg rev bnds		
Long Term Rating	AA/Stable	Affirmed
Seattle muni lt & pwr rfdg rev bnds		
Long Term Rating	AA/Stable	Affirmed
Seattle muni lt & pwr rfdg rev bnds		
Long Term Rating	AA/Stable	Affirmed
Seattle mun lt & pwr imp rev bnds ser 2019A dtd 2//20/08/2 due 04/01/2049		
Long Term Rating	AA/Stable	Affirmed
Seattle mun lt & pwr rfdg rev bnds ser 2019B dtd 08/22/2019 due 02/01/2026		
Long Term Rating	AA/Stable	Affirmed
Seattle mun lt & pwr (BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.