Research

Summary:

Seattle, Washington; Retail Electric

Primary Credit Analyst:
Peter V Murphy, New York (1) 212-438-2065; peter.murphy@standardandpoors.com

Secondary Contact:
Paul J Dyson, San Francisco (1) 415-371-5079; paul.dyson@standardandpoors.com

Table Of Contents

1403743 | 300642892

Summary:

Seattle, Washington; Retail Electric

Credit Profile		
US$164.28 mil mun lt and pwr imp and rfdg rev bnds ser 2015A due 05/01/2045		
Long Term Rating	AA/Stable	New
US$100.0 mil mun lt and pwr rev bnds (SIFMA Index) ser 2015B due 05/01/2045		
Long Term Rating	AA/Stable	New
Seattle mun lt & pwr (BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Seattle muni lt & pwr rev bnds		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' rating to Seattle, Wash.'s 2015A municipal light and power improvement and refunding revenue bonds, and its 2015B municipal light and power revenue bonds (SIFMA Index). The utility does business as Seattle City Light (SCL). At the same time, Standard & Poor's affirmed its underlying rating on parity debt. The outlook is stable.

We believe credit strengths include:

- A low-cost hydro-based generation portfolio that can meet demand under most water conditions, including less-than-normal water conditions;
- A strong and diverse customer base; and
- Competitive retail rates, despite significant increases in the past few years.

In our view, offsetting factors include some reliance on wholesale sales, and what we view as a large capital improvement program (CIP) that management expects will add about $1.42 billion of debt in the next six years.

Seattle pledges the light system's gross revenues to pay debt service on the bonds, and expects bond proceeds will fund capital improvements and conservation programs. The SIFMA index bonds will also fund $100 million in capital improvements. These bonds are subject to mandatory tender, which SCL expects will occur within three years of issuance. These bonds will be remarketed or refunded, and a failed remarketing does not result in an event of default. Rather, the bonds will be subject to a stepped rate of interest. As such, the SIFMA bonds do not need liquidity support.

SCL is a municipally owned electric utility that provides service to approximately 415,000 customers in Seattle and surrounding areas within King County, Wash., covering a population of 776,000. Debt totaled about $1.9 billion as of Dec. 31, 2014.

We believe SCL's business position is satisfactory ('3' on our scale of '1' to '10', '1' being excellent) due to its ability and willingness to adjust rates to support the utility's financial health, a large and diverse customer base with low industrial concentration, and a supply of low-cost hydroelectric power that is sufficient to cover demand and wholesale sales. In our view, challenges include managing hydrology and market risks related to the system's high dependence on hydroelectric power generation for wholesale sales. Rates are about average for the state but we believe they are very competitive relative to the national average and those of other large utilities in the region.

Historically, SCL has relied on wholesale sales for strong debt service coverage (DSC) levels. Wholesale sales revenue has ranged from 9%-20% of total operating revenue in the past 10 years, although the number has been declining. Management has taken steps to lower its reliance on wholesale sales to reduce volatility of financial performance, and intends to continue to do so. As part of its strategy, since 2010, city council has enacted a series of annual base rate increases. It also established a rate-stabilization account, which held $114 million as of fiscal 2014. The fund was established initially with savings from a debt restructuring and y a temporary rate surcharge in 2010. In addition to the base-rate increases, Seattle most recently raised rates 5.6% in 2014, and has adopted increases of 4.2% and 4.9% for fiscal years 2015 and 2016, respectively.

SCL management projects the rate-stabilization account balance to remain at or above the current $114 million level through 2018, and as of June 2015, it expects to require no additional rate-stabilization fund surcharges from 2015-2020. A portion of wholesale net revenues 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. Standard & Poor's believes the system's risk-management policies are conservative, and adequately reduces the risk related to its forward sales.

We believe SCL's overall financial performance is sound, with strong DSC of 1.5x-1.6 during fiscal years 2012-2014 (year ended Dec 31). Standard & Poor's calculates fixed coverage by including city taxes as an expense, and imputes a portion of long-term purchased power expenses, mainly from Bonneville Power Administration, as debt like. Fixed charge coverage has also typically been strong, in our view, exceeding 1.30x during the past three fiscal years, including 1.35x in fiscal 2014. Bond provisions are what we consider adequate, and include a 1.25x additional bonds test, and a sufficiency rate covenant.

Outlook

The stable outlook reflects Standard & Poor's expectation that SCL will maintain adequate liquidity and DSC levels through rate-stabilization policies, and continued conservative wholesale revenue forecasting. Rate stabilization, in conjunction with the automatic surcharge triggers, has contributed and should continue to contribute to credit stability, in our view. We could lower the rating if SCL fails to maintain consistently strong financial performance. We do not expect to raise the rating in the next two years.

Related Criteria And Research

Related Criteria

- USPF Criteria: Electric And Gas Utility Ratings, Dec. 16, 2014
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015
- U.S. Public Power 2015 Outlook: Despite Several Looming Issues, Credit Quality Should Remain Stable, Jan. 9, 2015

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.