

SECOND PARTY OPINION

GREEN BONDS

SUMMARY

Kestrel Verifiers is of the opinion that the City of Seattle's Municipal Light and Power Improvement Revenue Bonds, 2020, Series A (Green Bonds) conform with the four pillars of the Green Bond Principles 2018 as follows:

Use of Proceeds

The City of Seattle intends to use the bond proceeds to finance improvements to its electric utility system. Programs to be financed with the 2020 proceeds include hydroelectric power generation, transmission and distribution infrastructure for renewable energy, improving grid reliability, and preparing City infrastructure for the future of sustainable energy.

Process for Project Evaluation and Selection

Seattle City Light adopted a 2019-2024 Capital Improvement Program predicated on and in alignment with the 2019-2024 Strategic Plan. Capital improvement projects are identified and proposed by City Light staff from each division. In addition, project selection is guided by Seattle's target to become a carbon-neutral city by 2050.

Management of Proceeds

Bond proceeds shall be allocated to the City Light system capital improvements and conservation programs. A separate Project Fund will be established and maintained distinctly from all other funds in the City.

Reporting

The City of Seattle commits to posting continuing disclosures to the Municipal Securities Rulemaking Board (MSRB) done annually on the Electronic Municipal Market Access (EMMA) system. The utility also produces an Annual Report that highlights current environmental stewardship projects, energy use, and other pertinent metrics.



ISSUER

The City of Seattle, Washington

OPINION ON

Municipal Light and Power
Improvement Revenue Bonds,
2020, Series A (Green Bonds)

GREEN CATEGORY

Renewable Energy

EVALUATION DATE

July 29, 2020

KESTREL VERIFIERS CONTACTS:

Monica Reid

CEO

monica@kestrel-inc.com

(+1) 541-399-6806

Evan Smith

Lead Verifier

evan@kestrel-inc.com

(+1) 530-919-9162

April Strid

Verifier/Environmental Scientist

april@kestrel-inc.com

(+1) 503-860-1125

SECOND PARTY OPINION

Par: \$198,305,000
Issuer: City of Seattle, Washington
Issue Description: Municipal Light and Power Improvement Revenue Bonds, 2020, Series A (Green Bonds)
Project: Utility System Improvements
Green Category: Renewable Energy
Evaluation Date: July 29, 2020

GREEN BONDS SECOND PARTY OPINION

Kestrel Verifiers, an Approved Verifier accredited by the Climate Bonds Initiative, conducted an independent external review of this bond to evaluate conformance with the Green Bond Principles (June 2018) established by the International Capital Market Association.

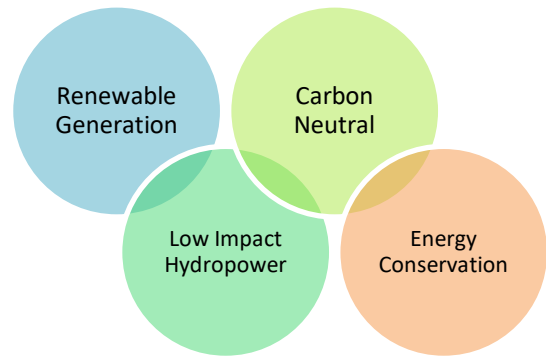
This Second Party Opinion reflects our review of the uses and allocation of proceeds and oversight and conformance of the bonds with the Green Bond Principles. In our opinion, the Revenue Bonds issued by the City are aligned with the four pillars of the Green Bond Principles and qualify for green bonds designation.

ABOUT THE ISSUER

In 2005, Seattle City Light Department (“SCL” or “Department”) was the first electric utility in the U.S. to become carbon neutral. SCL is an electric utility owned by the City of Seattle (“Seattle” or “City”) and is a department of the City. The utility serves a population of approximately 940,000 in Seattle and certain areas that extend beyond city limits. SCL achieves net zero carbon emissions by generating and sourcing the majority of its customers’ energy needs from hydroelectric projects and by offsetting emissions associated with market purchased energy and its daily operations.

Approximately 90% of the energy delivered to SCL customers is generated from hydroelectric projects. The Boundary Hydroelectric Project, the Skagit Hydroelectric Project, and a contract with Bonneville Power Association (BPA) are SCL’s three primary power sources. The Boundary and Skagit Projects, along with a few smaller facilities, provide 46% of the Department’s needs (6.4MWh in 2018). The remaining resources are purchased from other energy suppliers and utilities, including BPA. SCL owns and operates 656 miles of transmission facilities, 2,654 miles of overhead and underground wiring, and 16 major substations. That the utility does this while achieving carbon neutrality demonstrates leadership and true commitment to climate action.

As a major owner and purchaser of hydroelectric power, SCL recognizes the associated potential environmental impacts such as habitat and ecosystem degradation and has established programs for sustainable watershed management and aquatic habitat stewardship. One of SCL’s largest hydroelectric projects, the Skagit Project, made up of the Ross, Diablo, and Gorge hydroelectric plans, received a Low Impact Hydro certification from the Low Impact Hydropower Institute. The non-profit’s Hydropower Certification Program identifies dams that minimize environmental impacts and the Skagit Project is the largest in the U.S. to receive the certification.



Seattle City Light is committed to multiple strategies that contribute to progress towards Seattle’s Climate Action Plan targets.

SCL also generates and purchases renewable energy from a variety of sources, some of which are also purchased with Renewable Energy Credits (RECs) which help SCL meet Washington’s Renewable Portfolio Standard requirements. Local small renewable generation projects delivering power to SCL include the waste to energy facility at the Columbia Ridge Landfill and the cogeneration plant at the West Point Wastewater Treatment Facility. The Stateline Wind Project in eastern Washington and Oregon has also been a source of alternative renewables and RECs for SCL.

In addition to a demonstrated commitment to generation of renewables, SCL also prioritizes energy efficiency and energy conservation. This is demonstrated through programs such as widespread streetlight replacement with LEDs and smart meter infrastructure that improves energy management capabilities.

SCL has also demonstrated a commitment to Social Justice. Informed by the Citywide Race and Social Justice Initiative that aims to disrupt a system that perpetuates race-based disparities, SCL considers race and social justice in all its programs. Between 2012 and 2017, SCL has documented increases in purchases from women and minority-owned businesses and increases in the number of participants in the 60% Utility Discount Program offered to income-qualified customers. Additionally, the Department’s Environmental Equity Program recognizes that minority and underserved populations are disproportionately affected by environmental issues, and prioritizes involvement of these communities in decision-making and program design.

THE BOND-FINANCED PROJECT

Proceeds from the Revenue Bonds will be used to finance utility system improvements which enable transmission of renewable electricity to nearly 1 million Seattle residents. SCL’s operations and the bond-financed programs and activities outlined in Table 1 support and make progress toward priorities established in the City’s Climate Action Plan, the 2018 Integrated Resource Plan, the 2019-2024 Strategic Plan, and electrification of the city’s transportation sector. These long long-term plans and strategies conform with the Green Bond Principles by:

- Maintaining existing infrastructure for renewable power generation and distribution;
- Preparing for the future of sustainable energy infrastructure; and
- Increasing grid resilience in response to expected climate change impacts.

Table 1: Overview of SCL programs receiving bond proceeds

Program	Examples
Central Utility Projects	Customer and facility needs, may include building envelope upgrades or equipment purchases
Distribution	Building and maintaining overhead and underground distribution network and service connections; substation improvements
External Projects	Streetlight LED conversion program, partnerships with other Seattle departments to relocate infrastructure to accommodate other capital projects, for example, water or transportation infrastructure
Power Supply	Projects at utility-owned generation facilities such as the Boundary Project, Skagit Project, or Cedar Falls; dams, generators, and powerhouses; efficiency upgrades
Transmission	Transmission reliability and capacity

The City of Seattle as a whole has adopted a goal to be carbon-neutral by 2050. Supporting this goal, SCL has adopted multiple progressive plans that prioritize production and transmission of renewable energy, aligning with the Green Bond Principles.

Integrated Resource Plan: The Integrated Resource Plan (IRP) is one of the SCL’s primary planning processes that identifies possible energy portfolios to meet customer, conservation, and regulatory needs over the next 20 years. In addition, the IRP informs the Strategic Plan. In the most recent (2018) IRP, central strategies included acquisition of cost-effective conservation and acquisition of Renewable Energy Credits (RECs) or renewable resources for compliance with renewable requirements.

Strategic Plan: Projects selected for inclusion in the Capital Improvement Plan (CIP) must align with the 2019-2024 Strategic Plan, which addresses four main priorities: customer service, affordability, clean energy, and progress on the core business. The goal of the Clean Energy priority is to “Deliver robust and innovative programs to promote the efficient use of clean energy and protect the shared ecosystem.” This planning and prioritization aligns with the Renewable Energy project category of the Green Bond Principles.

The Strategic Plan also sets forth an Environmental Stewardship Initiative under the Clean Energy priority whereby SCL will implement adaptation measures identified in the Department’s 2015 Climate Change Adaptation Plan. The comprehensive Climate Change Adaptation Plan aligns with available science and climate models, identifies potential climate change related impacts on SCL’s operations, and recognizes potential adaptation actions. For example, reduced snowpack and earlier seasonal melt are expected to impact hydroelectric generation capacity. Higher peak flows may negatively impact fish protections due to increased spilling which can cause fish mortality and damage downstream habitat. One proposed adaptation in response to these impacts is expansion of SCL’s energy mix to include renewables with seasonal patterns that align with expected demand. The Environmental Stewardship Initiative also involves improving watershed resilience through management actions and projects such as pilot reforestation with species which are better adapted to warmer, drier climates.

Energy efficiency is a core principle of sustainable energy infrastructure. SCL’s Strategic Plan promotes clean energy solutions and energy efficiency programs. Successes in both efficiency programs and policy-driven incentives are demonstrated by reduced energy demand.

Transportation Electrification: One of SCL’s ongoing projects is to facilitate and prepare for widespread electrification of the transportation sector. The City of Seattle aims for 30% EV adoption by 2030 and Seattle is already home to more than 8,000 registered EVs. SCL’s Transportation Electrification Strategy highlights methods to facilitate the EV transition and reduce transportation emissions by replacing fossil fuel-powered vehicles with SCL’s carbon-neutral electricity. Possible strategies include investments in residential and workplace EV charging infrastructure, alteration of rate structures to support EV owners, and expanding infrastructure to plan for large loads (e.g. freight or bus charging needs).

ALIGNMENT TO GREEN STANDARDS


Green Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the Green Bonds Principles (“pillars”) which include: Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting (International Capital Market Association definition).

Use of Proceeds

The Revenue Bonds will be used to finance improvements to SCL’s electric utility system. Projects to be financed with the 2020 bonds align with programs of the utility including hydroelectric generation, transmission and distribution infrastructure for renewable energy, and improving grid reliability and resilience. These investments are eligible green uses of proceeds as defined by the Green Bond Principles in the project category of Renewable Energy, as they enable production and transmission of renewable energy. Upgrades, repairs, and expansion of infrastructure are all critical to the long-term sustainability of SCL’s operations and its continued ability to provide carbon-neutral energy to its customers.

The bond-financed activities advance the environmental objective of mitigating climate change impacts by minimizing greenhouse gas emissions associated with energy generation and distribution. SCL’s Climate Change Adaptation Plan directs actions to improve the resilience of the grid and related infrastructure and thereby advances the objective of climate change adaptation and resilience.

The bond-financed activities conform with the Green Bond Principles:

BOND LABEL	ELIGIBILITY CRITERIA
	Renewable Energy: Includes production, transmission, appliances and products

Process for Project Evaluation and Selection

As a city department, SCL's operations, including budget and debt issuance, are approved by the City Council and Mayor. The City Light Review Panel acts as an advisory board that provides feedback on items such as Strategic Plans and efficiency of operations.

The 2019-2024 Strategic Plan was adopted by City Council on July 9, 2018. Priorities include providing high-quality customer service that aligns with customer expectations and to "deliver robust and innovative programs to promote the efficient use of clean energy and protect the shared ecosystems." SCL revisits the Strategic Plan every two years to maintain transparency and set direction for future CIP development. Work on the 2021-2026 Strategic Plan is ongoing and expected to be presented to City Council as COVID-19 recovery allows.

The 2019-2024 CIP is based on and in alignment with the 2019-2024 Strategic Plan. Department staff in each operational division are responsible for creating official proposals to prioritize capital spending within their divisions and then submit recommended projects through a centralized capital budgeting system. Specific to conservation programs and in alignment with the Green Bond Principles, the Environment, Land and Licensing Unit manages environmental stewardship and greenhouse gas reduction programs.

Management of Proceeds

Bond proceeds are specified for financing the capital improvements and conservation programs of SCL. Proceeds will be deposited in a separate Project Fund established and managed as a separate fund from the city's other assets. SCL monitors Capital Improvement Plan project spending and allocation throughout the year and reports progress to the Mayor and City Council quarterly. These reports may be found here:

<https://www.seattle.gov/Documents/Departments/FinanceDepartment/1924proposedcip/SCLCAP.pdf>

Funds not immediately disbursed will be subject to the City's stringent investment policy prioritized on liquidity and return.

As of December 31, 2019, the combined investment portfolios of the City, not including pensions, totaled \$2.73 billion at market value. The City's investment portfolio consists solely of City funds. Approximately 28%, or \$800 million, was invested in securities with maturities of three months or less. The City held no securities with maturities longer than 15 years.

Investments were allocated as follows:

- U.S. Government Agencies 25%
- U.S. Government 21%
- State Local Government Investment Pool 19%
- Taxable Municipals 13%
- U.S. Government Agency Mortgage-Backed 11%
- Repurchase Agreements 4%
- Commercial Paper 3%
- Corporate Bonds 2%
- Supranational 2%



Reporting

So long as the Municipal Light and Power Improvement Revenue Bonds, 2020, Series A (Green Bonds) are outstanding, the City of Seattle will submit continuing disclosures to the Municipal Securities Rulemaking Board (MSRB). The issuer will also provide reports in the event of material developments. This reporting will be done annually on the Electronic Municipal Market Access (EMMA) system operated by the MSRB.

Additionally, SCL produces an Annual Report that highlights environmental stewardship projects and reports on financial statistics, debt service, energy use and statistics. Annual reports from each year are available on SCL's website.

CONCLUSION

Based on our independent verification, the City of Seattle's Municipal Light and Power Improvement Revenue Bonds, 2020, Series A (Green Bonds) conform, in all material respects, with the Green Bond Principles (2018) and are in complete alignment with the Renewable Energy project category.

ABOUT KESTREL VERIFIERS



For 20 years Kestrel has been a trusted consultant in environmental finance. Kestrel Verifiers, a division of Kestrel 360, Inc. is a Climate Bonds Initiative Approved Verifier qualified to verify transactions in all asset classes worldwide. Kestrel is a US-based Women's Business Enterprise.

For more information, visit www.kestrelverifiers.com

DISCLAIMER

This opinion aims to explain how and why the discussed financing meets the ICMA Green Bond Principles based on the information which was available to us during the time of this engagement (July 2020) only. By providing this opinion, Kestrel Verifiers is not certifying the materiality of the projects financed by the Green Bonds. It was beyond Kestrel Verifiers' scope of work to review issues relating to regulatory compliance and no surveys or site visits were conducted. Furthermore, we are not responsible for surveillance on the project or use of proceeds. The opinion delivered by Kestrel Verifiers does not address financial performance of the Green Bonds or the effectiveness of allocation of its proceeds. This opinion does not make any assessment of the creditworthiness of the Issuer, or its ability to pay principal and interest when due. This is not a recommendation to buy, sell or hold the Bonds. Kestrel Verifiers is not liable for consequences when third parties use this opinion either to make investment decisions or to undertake any other business transactions. This Opinion may not be altered without the written consent of Kestrel Verifiers. Kestrel Verifiers certifies that there is no affiliation, involvement, financial or non-financial interest in the issuer or the projects discussed. Language in the offering disclosure supersedes any language included in this Second Party Opinion.