

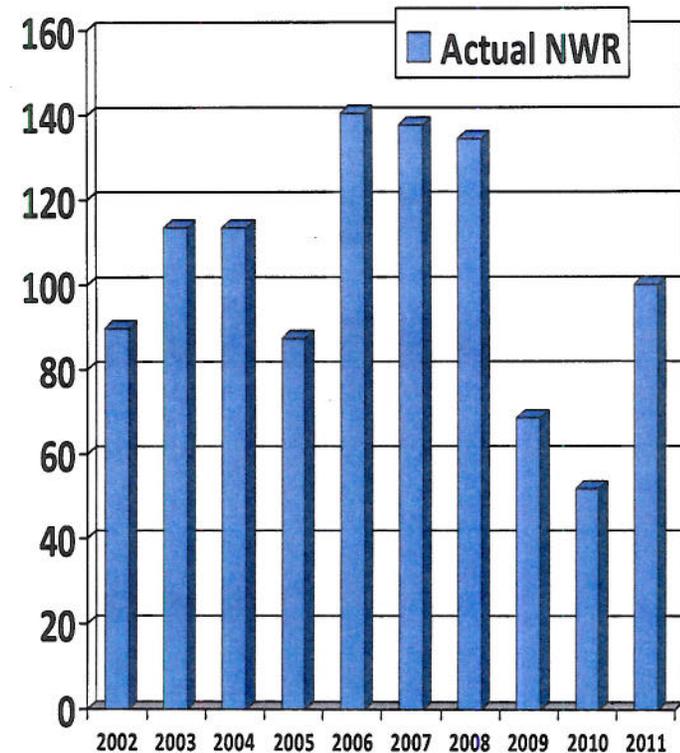
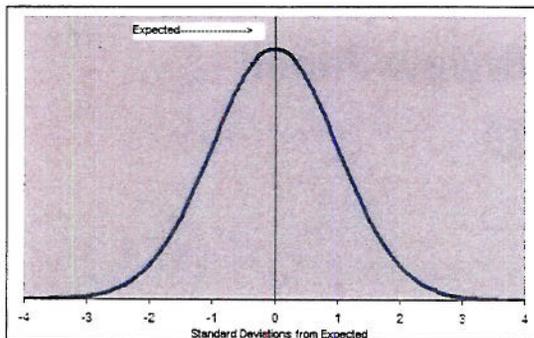
# How much Net Wholesale Revenue to Assume When Setting Base Rates?

Presentation to City Light Review Panel

October 19, 2011

# Historical Net Wholesale Revenue (NWR)

- Revenue has been quite variable, ranging from \$58-\$140 million
- For any given year, NWR is affected by potential prices and volumes:

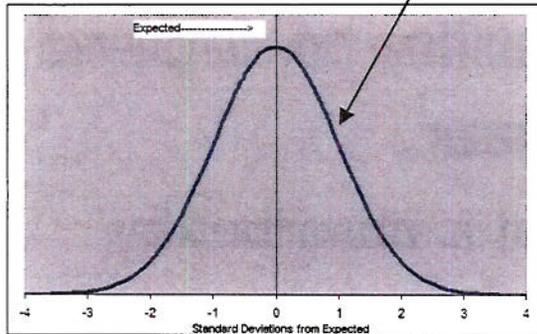


# Rate Stabilization Account

- Ordinance specifies:
  - Revenue to be assumed is average of that realized from 2002 to the latest available full year
- Rate Stabilization Account allows utility to depend on a specified level of NWR each year.
  - Variance between actual and forecast is absorbed by Rate Stabilization Account
- Over time, the RSA would be self-sustaining (no persistent surcharges) if the NWR estimate we rely on is unbiased (not too high)
  - *Currently this is not the case*

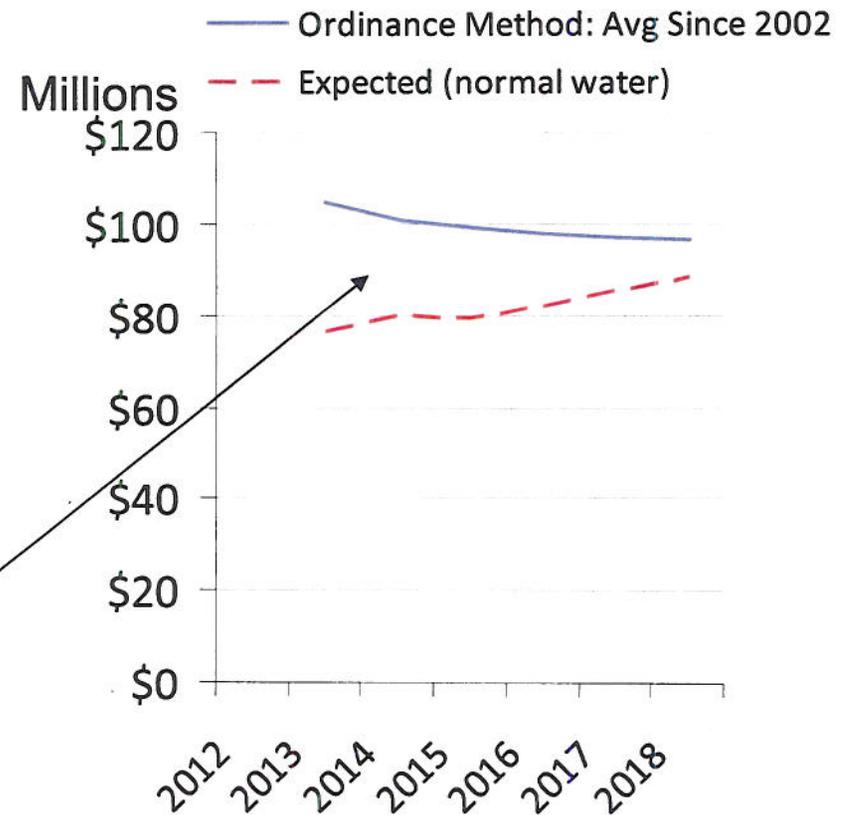
# Problem:

- From 2012 forward, RSA Ordinance specified method significantly exceeds our forecast of revenue based on normal water



- Consequences:
  - Gap causes RSA to be drawn down
  - RSA falls below specified levels
  - Surcharges of between 1.5%-4.5% from 2012-

## NWR likely to be below level Specified by RSA Ordinance:

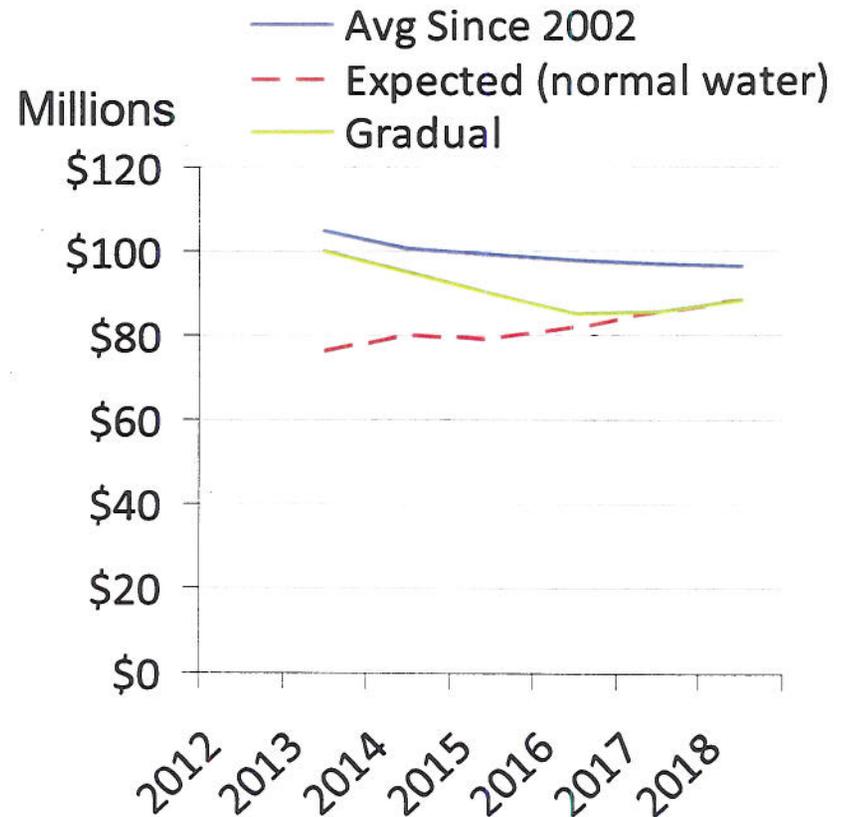


# Fundamental Concept Regarding NWR Assumption

- Tradeoffs:
  - less NWR assumed when setting rates means higher base rates
  - But, will reduce likelihood of surcharges
- But, customers will pay the same amount over time through base rates or through RSA surcharges

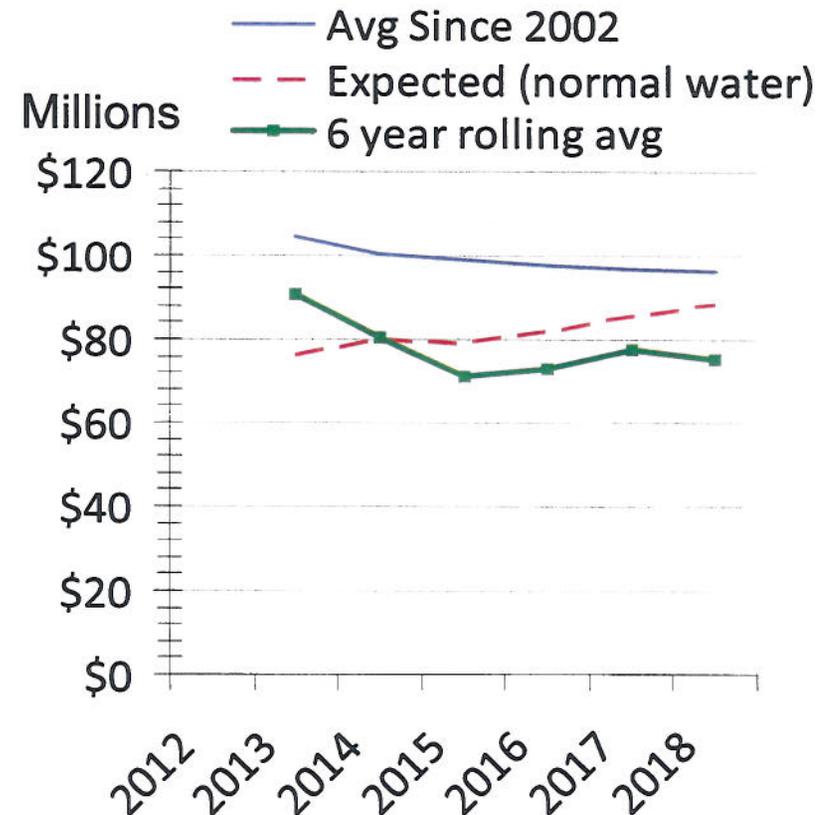
# Alternative Solutions:

Option	Issues
1. Set based on our forecast (uses 3 <sup>rd</sup> party forecast of energy prices and “normal” water)	<ul style="list-style-type: none"> <li>• Moving immediately to our “expected” value has a sizable one time impact on base rates</li> <li>• But, reduces the likelihood of surcharges</li> </ul>
1a. Move gradually towards that target.	<ul style="list-style-type: none"> <li>• Impact can be lessened moving to the lower figure over time</li> <li>• But, doing so leaves higher likelihood of surcharges</li> </ul>



# Alternative Solutions:

Option	Issues
2. Shorter-term rolling average, such as six years	<ul style="list-style-type: none"> <li>•Arrives at more conservative figure relatively quickly.</li> <li>•Significantly reduces the likelihood of surcharges, and will likely provide refunds in 2015-</li> </ul>



# Comparison of Alternatives

Option	2013 Rate Impact  2.2% baseline plus:	Impact on 2013-18 Avg. Rate Increase	Impact on RSA Surcharges
1. Set based on our forecast (based on third party forecast of energy prices and “normal” water)	+4.5%	+0.2%	Reduces likelihood of surcharges
1a. Move gradually towards that target.	+0.8%	+0.1%	Surcharges more likely in 2013-2017 than #1
2. Six year rolling average	+2.6%	+0.4%	Potential rebates 2015 forward

# Next Steps

- Continued review of this issue during October
- Preferred Strategy will have a recommendation for treatment of this issue

