

City Light Financial Policies

Presentation to the City Light Review Panel

September 17, 2010



Financial Policies: Purpose

- Since 1977 City Light has set electric rates in compliance with specific financial policies adopted by the City Council.
 - Policies adjusted periodically; current policies adopted in March 2010.
- Financial policies are designed to:
 - Maintain operational and fiscal health for the Utility
 - Maintain credit ratings for access to low-cost funding for capital program
 - Match costs / benefits of investments appropriately to system users and allocate capital costs over time
 - Promote long-term rate stability for customers
- Helps City Light provide high quality service at the lowest possible cost to its customers in the long run.

Background and “Rules of Thumb” on Rates

- Average Rates by Customer Class

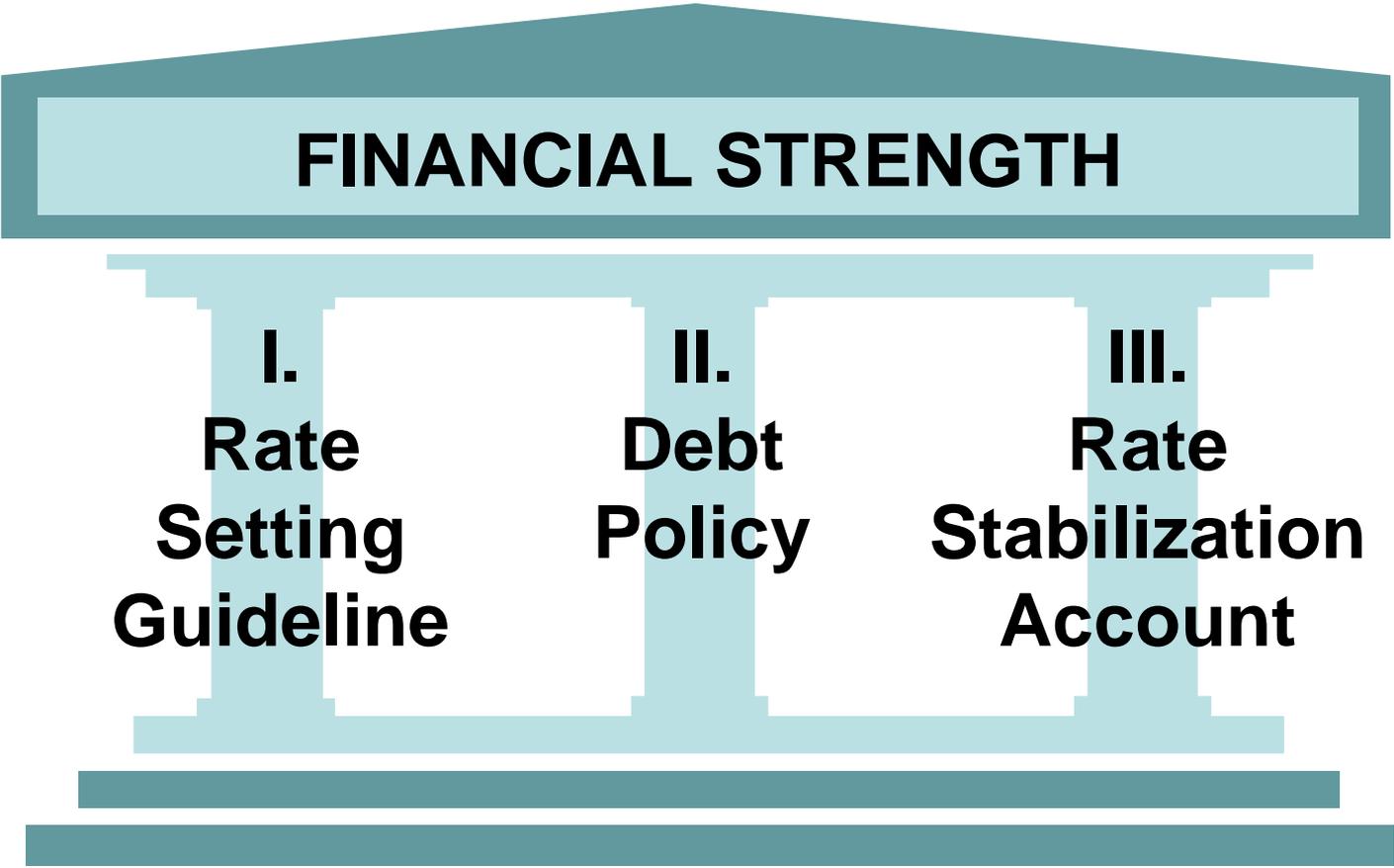
2010 Average Rates (cents per kwh)	
Residential - Standard	7.5
Residential - Assisted	3.0
Small General Service	6.4
Medium General Service	6.1
Large General Service	6.1
High Demand	5.3

- Rules of Thumb

 - ~\$6 million of O&M spending = 1% rate change

 - ~\$75 million of debt-financed capital spending = 1% rate change

Financial Policies: Three Pillars



I. Rate Setting Guideline

- Rates set to achieve debt service coverage ratio of 1.8

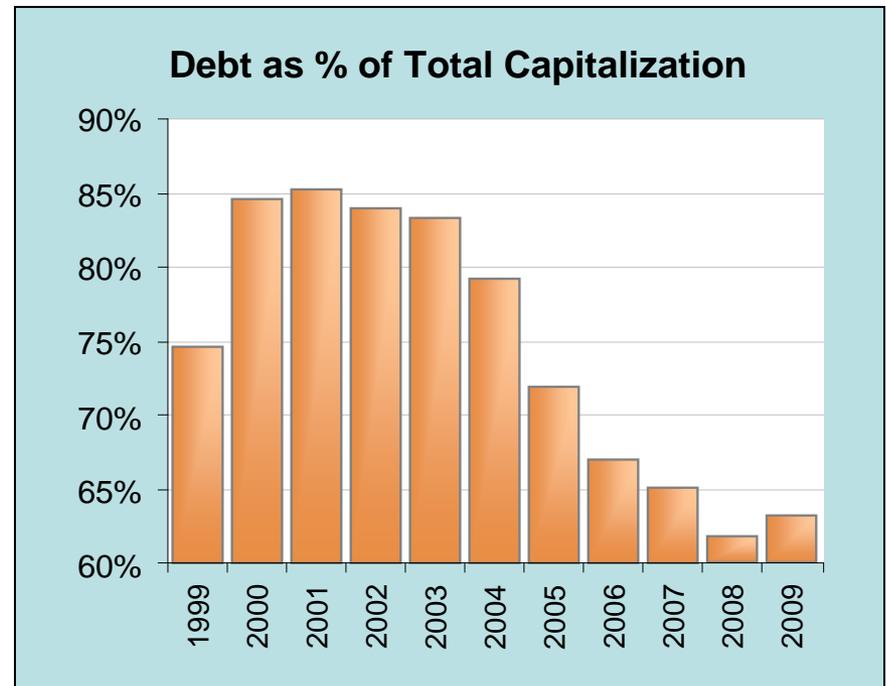
Revenues	100
Expenses	82
Available for Debt Service	18
Debt Service	10
Available to fund Capital program	8

- Historically, coverage ratio has typically been between 1.8 - 2.0
 - Comparison to industry
- The addition of the RSA reduces revenue volatility and allows City Light to reduce coverage to 1.8 and still meet debt service obligations with a comparable level of certainty.

II. Debt Policy

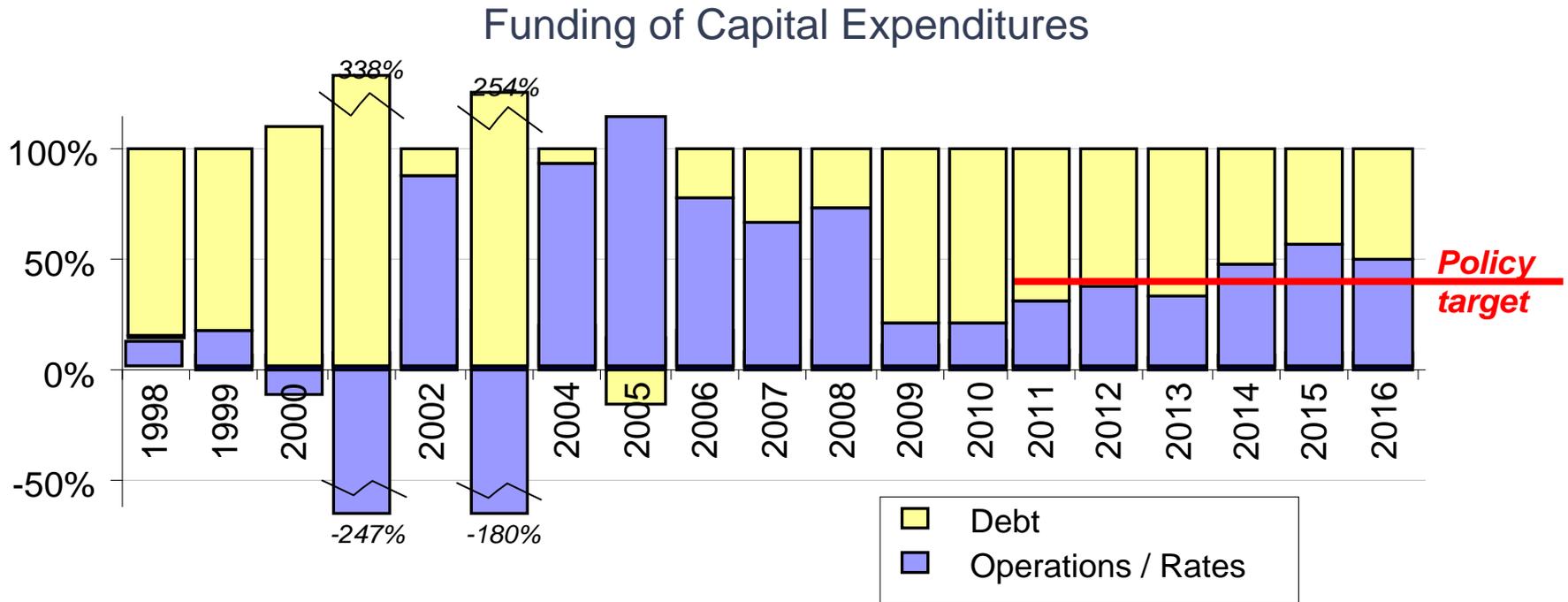
- Policy: $\leq 60\%$ of expenditures in the six-year Capital Improvement Program to be debt funded.
- Why? Debt-to-capitalization levels soared following the energy crisis, and reached 85% in 2002.

- In 2005, Council established debt-to-capitalization target: 60% by 2010.
- Forecast: 63% by Y/E 2010
- New policy will drive us towards 60%.



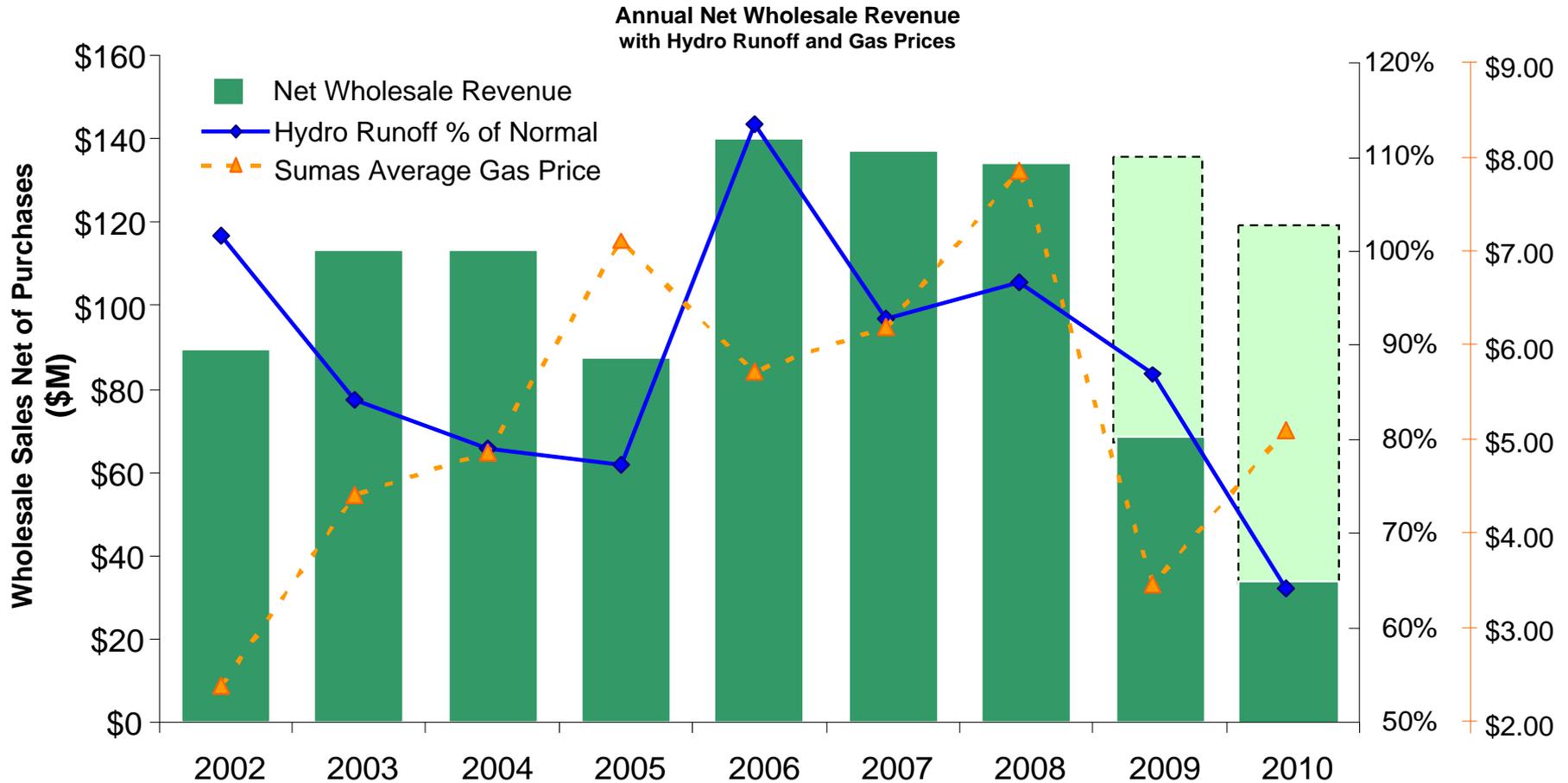
II. Debt Policy (continued)

- Capital expenditures funded from operations & debt.
- When revenue falls short of projections, debt acts as a buffer so continue capital projects can continue and we can maintain stable rates.
 - Increasing size and frequency of bond issues does increase future rates.



III. Rate Stabilization Account (RSA)

- Wholesale energy sales are a substantial but variable revenue source



III. Rate Stabilization Account (RSA)

- Helps address Wholesale Revenue Volatility
- The RSA will supplement revenue when actual wholesale revenue is below the forecasted amount. Wholesale revenues above forecast will be added to the RSA.
- RSA target size: \$100 million - \$125 million.
- Prescribed actions when fund falls below:

< \$90 million	Automatic 1.5% surcharge
< \$80 million	Automatic 3.0% surcharge
< \$70 million	Automatic 4.5% surcharge
< \$50 million	Council must initiate a rate review and determine actions to replenish the RSA to \$100 million within 12 months

- Surcharges effective for 2010
 - The RSA is forecast to reach \$69 million by year end 2010. Assuming no withdrawals, RSA is expected to be fully funded by the end of 2011.
 - The RSA may be drawn down beginning in 2011.

Complying with the Financial Policies: Six-Year Financial Forecast

(\$ million)	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Average Rate Change from Prior Year, %	[]%	[]%	[]%	[]%	[]%	[]%	[]%
Cash from Revenues							
Retail Power Sales	611.5	642.0	684.7	732.8	729.9	796.0	825.6
Revenue from RSA Surcharge	17.4	11.7	0.0	0.0	0.0	0.0	0.0
Wholesale Power, Net	46.7	110.5	102.1	103.6	106.6	103.5	107.5
Other Revenue	65.9	73.6	72.1	77.1	102.1	73.6	70.0
Total	741.5	837.8	858.8	913.5	938.6	973.1	1003.0
Cash to Expenses							
Power Contracts	274.8	288.9	289.3	291.5	305.1	315.7	330.5
Other O&M	232.2	261.3	259.0	278.1	278.8	288.0	296.5
Cash to Rate Stabilization Account	43.7	31.3	0.0	0.0	0.0	0.0	0.0
Total	550.7	581.5	548.3	569.6	583.9	603.8	627.0
Amount Available for Debt Service	190.8	256.3	310.5	344.0	354.8	369.3	376.0
Debt Service	122.3	142.4	172.5	191.1	197.1	205.2	208.8
Taxes and Other Expenses	50.6	40.3	44.3	48.2	44.9	46.0	52.5
Debt Service Coverage	1.5	1.8	1.8	1.8	1.8	1.8	1.8
Cash from Operations	17.9	73.7	93.7	104.7	112.8	118.1	114.6
Net Income	51.5	100.7	83.4	100.1	122.9	110.5	124.6
Debt Issued	254.5	198.8	198.8	256.2	144.5	114.6	113.4
Debt as a % of Total Capitalization	63%	62%	62%	62%	61%	60%	57%

June 2010 Rate Study Draft-
Not reflective of current proposal

Conclusions

- Policies:
 - Support prudent financial management of utility
 - Support access to low cost funding for capital program
 - Provide for rate stability

- City Council to review financial policies and RSA by the end of 2011.
 - Determine if measures have been successful in protecting Utility and ratepayers from volatility in wholesale revenues.