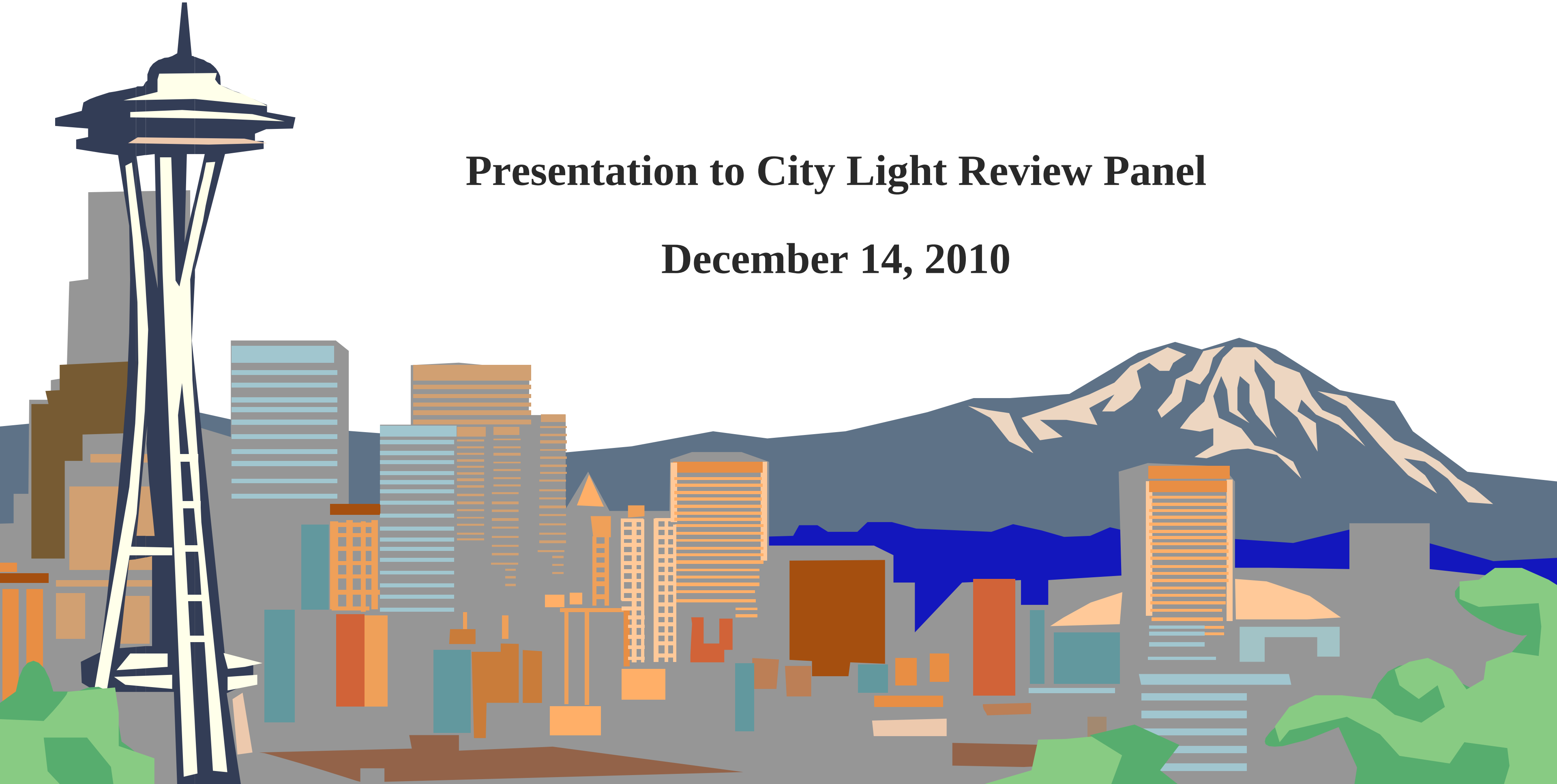
Seattle City Light
Financial Baseline Preview

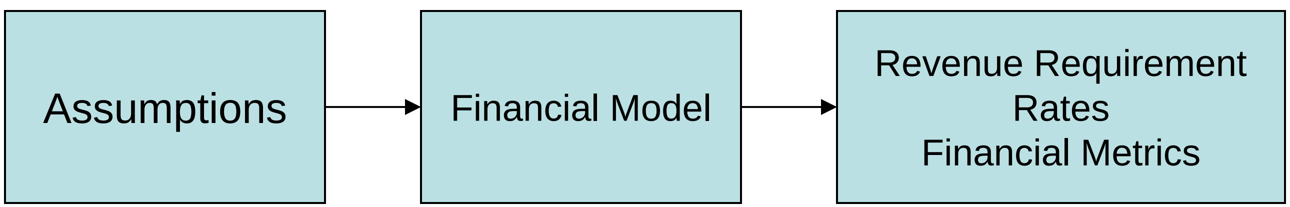
Presentation to City Light Review Panel

December 14, 2010



Presentation Outline

- Objectives of Financial Baseline Exercise
- SCL Rate History
- Cost Drivers
  - Industry View
  - Our Categories and Outlook
    - O&M Costs
    - Debt Service/ Capital
    - Other (Power Contracts/Wholesale Revenue)



- Next Steps

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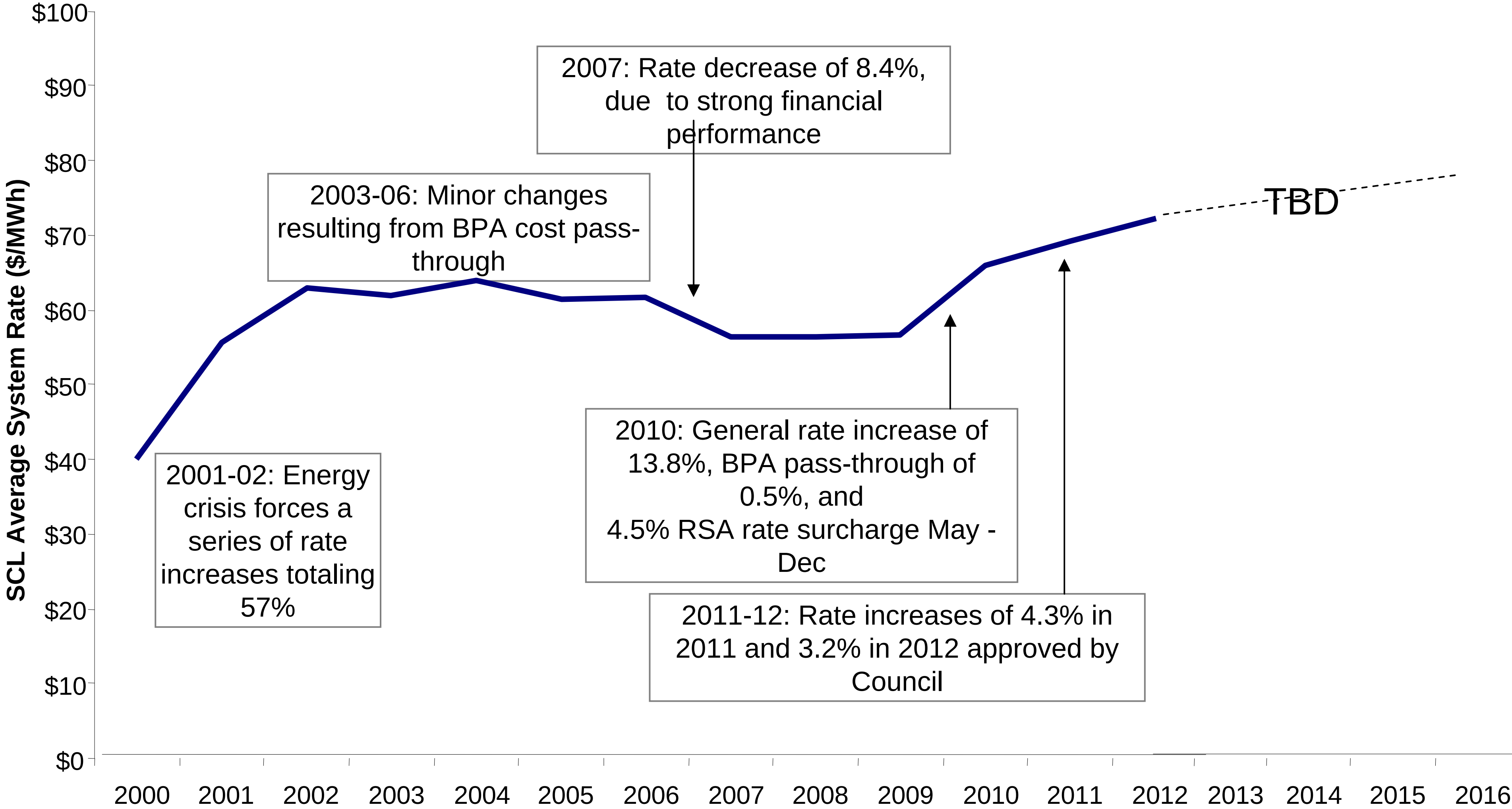
Financial Baseline Objectives

- Provide information about the financial outlook for the next 6 years
- Understand how upcoming decisions and assumptions can affect that outlook
  - O&M
  - Capital / Debt
  - Other key drivers such as Net Wholesale Revenue
- Illustrate minimal level of investment/expenditures, given current operation practices and capacities, required to maintain current service levels for the strategic planning period.
- Illustrate rate impacts associated with continuing the status quo service levels and operations.
- Serve as the baseline against which additional investment & operating proposals are in part judged
- It will be incorporated into the strategic plan as the baseline scenario.

City Light Rate Changes Since 2000



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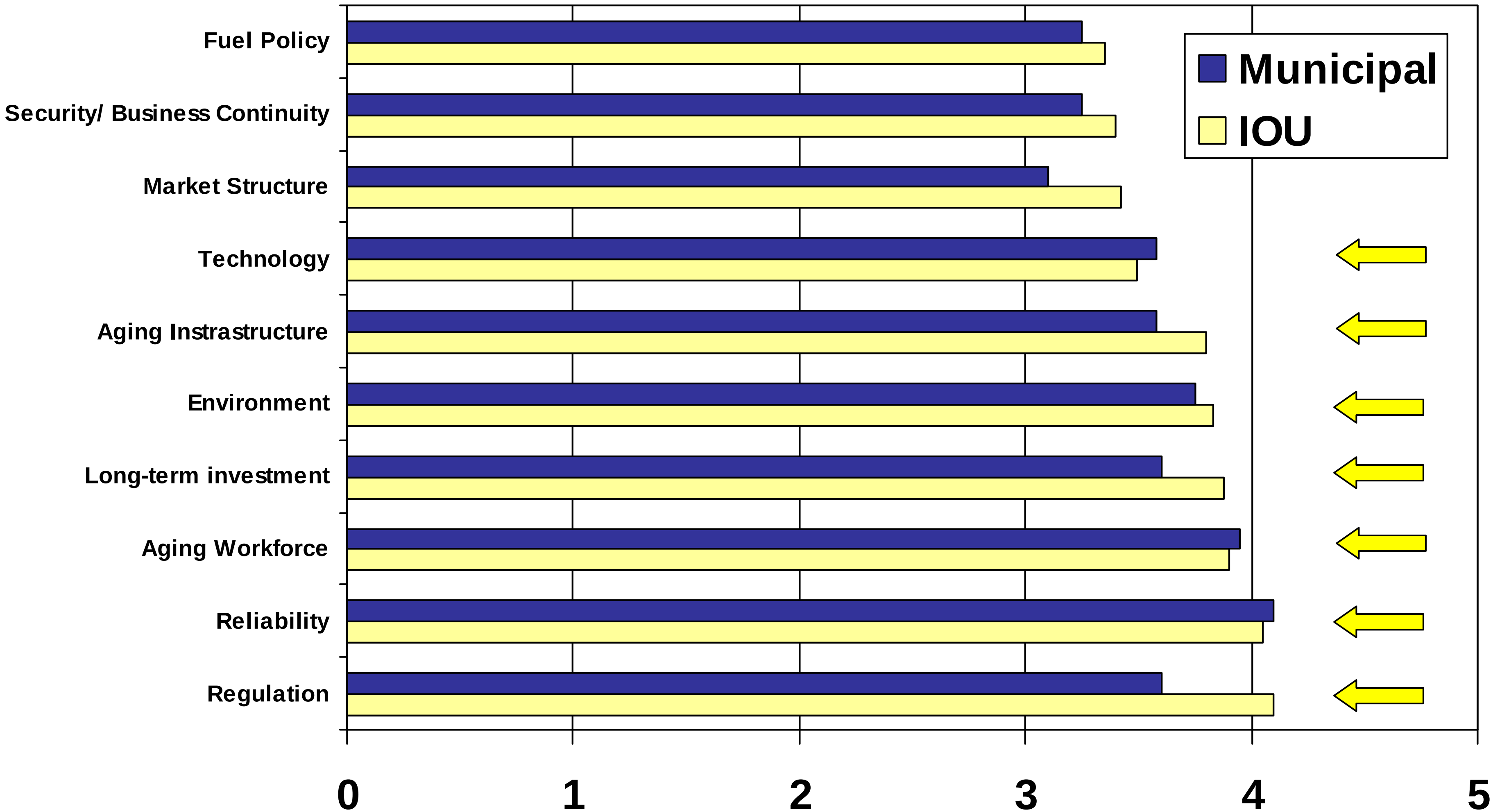
Top Utility Industry Concerns/ Cost Drivers



Black & Veatch 2010 Utility Industry Survey
5=Very Important
1=Not Important

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What Drives Changes in SCL Rates Over the Next 6 years?

- New Initiatives Resulting from Strategic Planning Process
  - New Service Initiatives
  - New Efficiency Initiatives
  - Additional Regulatory Requirements
- Existing Programs for 2011/2012 and commitments made in 6 year capital plan
  1. O&M Cost Drivers
     - Labor
     - Non-Labor
  2. Debt Service Cost Drivers
     - Existing Debt
     - New Debt
  3. Other Drivers
     - Power Contracts
     - Net Wholesale Revenue

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SCL's Financial Planning unit maintains a 10 year financial forecast

	2010	2011	2012
Operating Revenues:			
Retail Energy Sales in Seattle Service Area	$ 625,422	$ 656,050	$ 710,389
Wholesale Power Sales	76,351	98,306	104,927
Power Exchanges and Other	63,707	69,194	49,925
Transmission Revenues	3,080	2,737	2,789
Other Revenue	20,987	21,813	22,243
Transfers To/From Rate Stabilization Account	(54,091)	1,221	8,939
Total Revenue	$ 735,455	$ 849,321	$ 899,212
Operating Expenses Before Debt Service:			
Wholesale Market Purchases	$ 27,247	$ 35,370	$ 36,709
Long-Term Purchased Power Contracts	223,980	220,506	237,139
Power Related Purchases	25,151	21,688	17,600
Production	39,287	48,219	51,902
Wheeling	38,975	39,873	39,210
Other Operating and Maintenance Expenses	168,423	204,944	203,596
Taxes (excluding City taxes)	31,316	33,109	35,082
Total Operating Expenses Before Debt Service	$ 554,378	$ 603,710	$ 621,238
Net Operating Revenue	$ 181,077	$ 245,612	$ 277,973
Non-Operating Revenue (Expenses)	$ 23,518	$ 10,166	$ 35,151
Revenue Available for Debt Service	$ 204,594	$ 255,777	$ 313,124
Total Debt Service	$ 118,372	$ 142,659	$ 173,183
Debt as Pct of Total Capitalization	63.3%	63.3%	62.8%
Debt Service Coverage Ratio	1.73	1.79	1.81
Cash from Operations ($M)	$ 32.0	$ 67.9	$ 89.0
Net Income ($M)	$ 32.9	$ 85.2	$ 91.7
Debt Issued ($M)	$ 254.5	$ 210.0	$ 200.0
Wholesale Electricity Price, $/MWh	33.14	30.33	38.01
Wholesale Natural Gas Price, $/MMBtu	4.11	4.17	4.90
Rate Change from Prior Year, %	13.8%	4.3%	3.2%

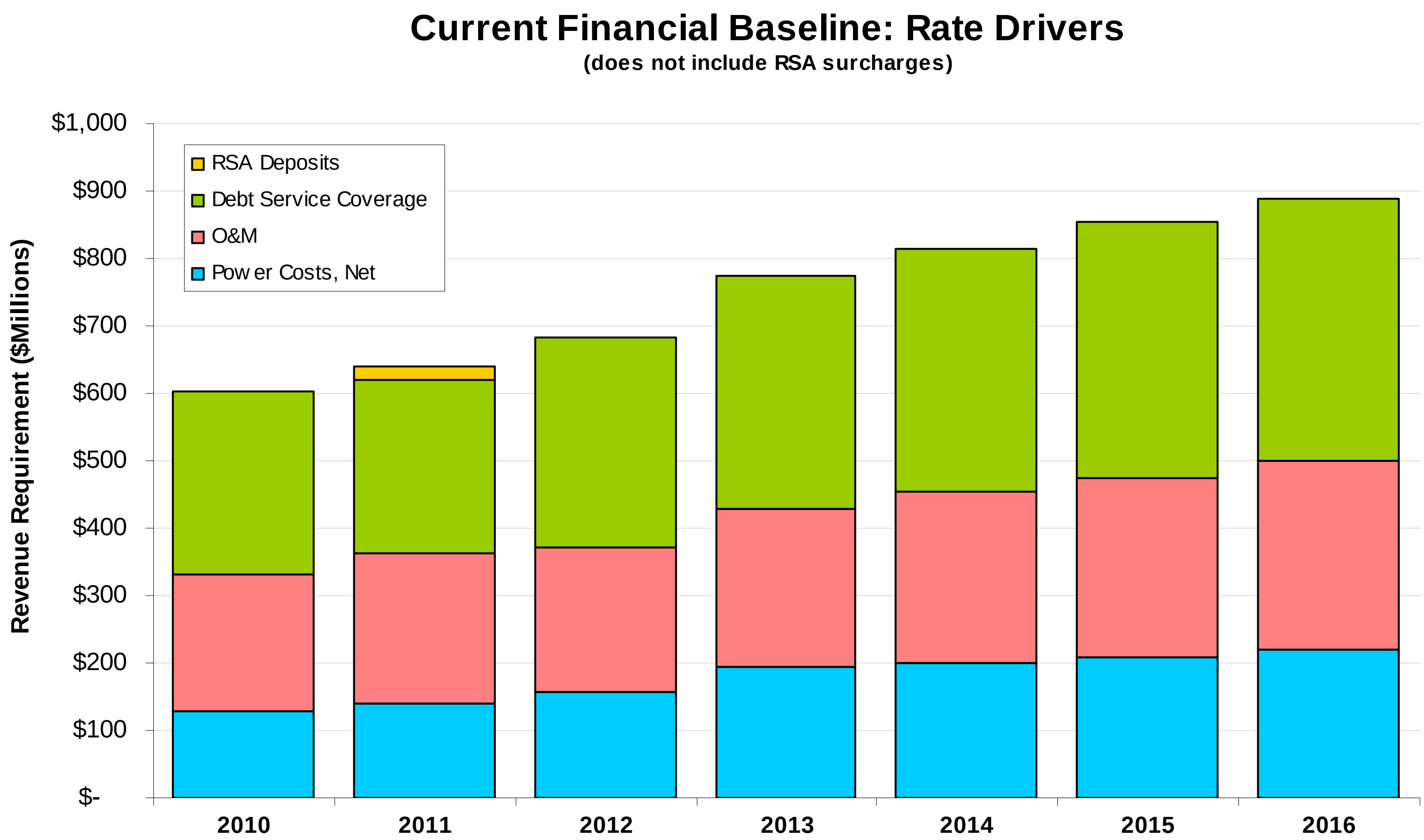
Has:

- Detailed forecast of power contracts, load, net wholesale revenues
- Detailed forecast of debt service based on capital spending projections & existing bonds
- Shows pro-forma rate increases, key financial metrics and compliance with financial policies

Needed Work:

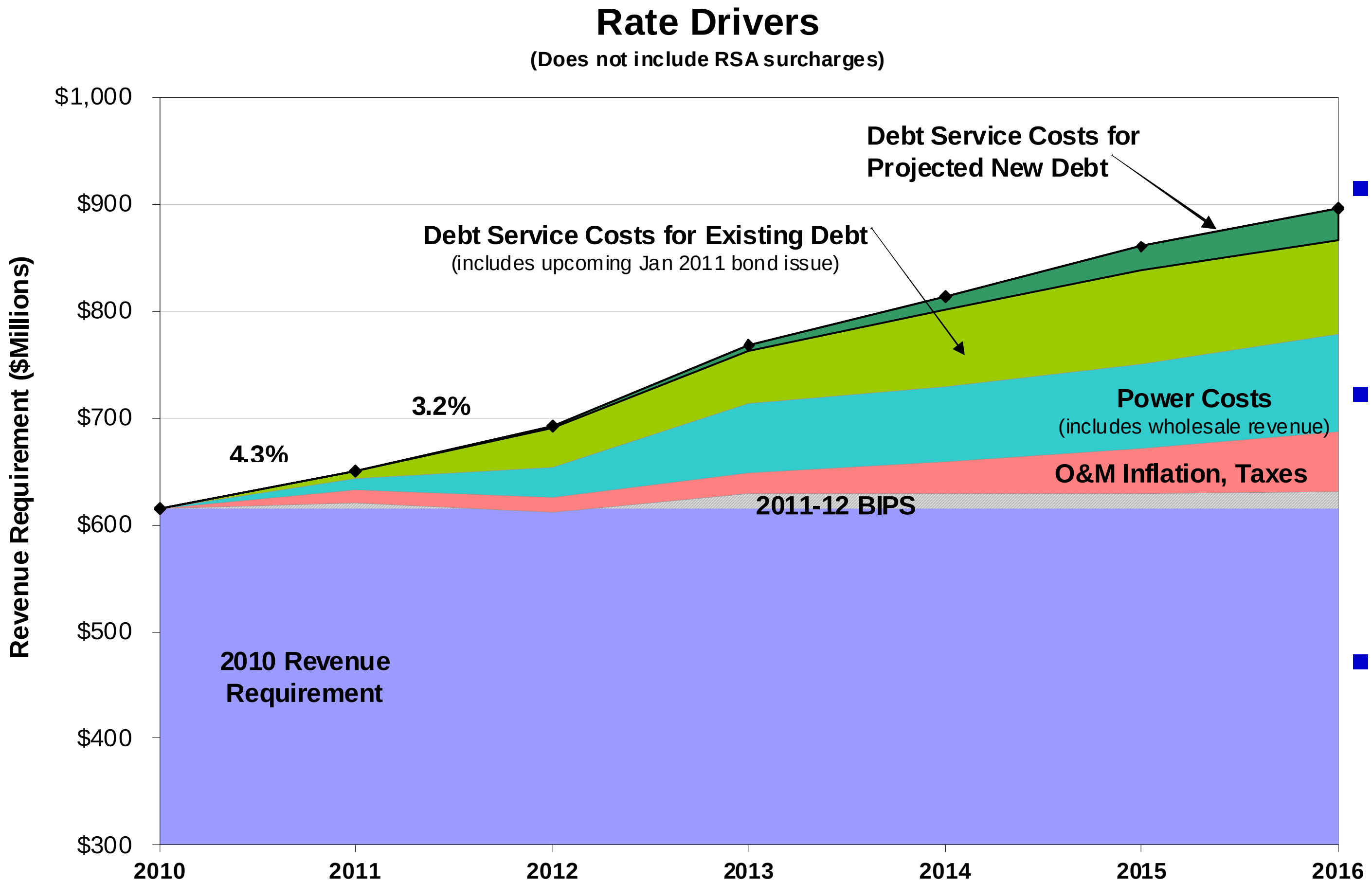
- Didn't reflect defined baseline assumptions for O&M and capital
  - Example: O&M generally grows at CPI beyond 2012
- Uses FERC categories of spending (not City Light budget categories)

Major Components of the Revenue Requirement include Debt Service & Coverage requirement, Power Costs and O&M.



INDICATIVE ONLY TO ILLUSTRATE RELATIVE COMPOSITION OF LIKELY CHANGES—
WILL BE REFINED FOR PRESENTATION IN JANUARY

What Drives Changes in projected SCL Base Rates Over the Next 6 years?



INDICATIVE ONLY TO ILLUSTRATE RELATIVE COMPOSITION OF LIKELY CHANGES—WILL BE REFINED FOR PRESENTATION IN JANUARY

Key Points

- Capital Spending/ Debt Service is largest driver
- Power Costs / Net Wholesale Revenue Significant
- Smallest driver: O&M/ Controllable spending

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1.

O&M Costs

- Major Categories

Category	% of 2011 O&M	Growth Rate Assumed
– Labor	44%	CPI+1%
– Benefits	19%	5.6%
– Services	8%	CPI
– Maintenance	6%	CPI+1%
– Supplies & Materials	5%	CPI except 8% for field materials
– City Payments & Rentals	16%	CPI
– Other (Injury/Environmental claims, permits)	2%	10%

- Exercise:
  - Develop and document separate growth rate assumptions for each category

- Results (for inclusion in Financial Baseline):

	2013	2014	2015	2016
Growth Rate Assumed	9.9%*	3.2%	4.2%	5.8%
CPI	2.1%	2.2%	2.4%	2.4%

* Affected by add-back of IT costs moved from 2012 to 2011 and environmental cleanup costs.

2. Power Related Costs

- Power Contracts
  - Detailed review of power contracts and procurement requirements
  - Review methods of compliance with I-937 renewable mandate for 2013 and beyond
- Net Wholesale Revenue
  - Current Rate Stabilization Ordinance specifies what we should assume for Net Wholesale Revenue collections each year

	2011	2012	2013	2014	2015	2016
RSA Baseline (w/ 12_03 numbers)	$ 97	$ 102	$ 98	$ 96	$ 94	$ 93
WRM	$ 75	$ 72	$ 71	$ 78	$ 80	$ 88
Difference	$ 22	$ 30	$ 26	$ 18	$ 14	$ 5

- If we forecast an annually recurring major shortfall between expected wholesale revenue and the Ordinance formula level of wholesale revenue, should the formula be changed? If so how? There will still be a revenue gap: how should it be addressed?
  - Through Rate Surcharge
  - Through a change in base rates?

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3.

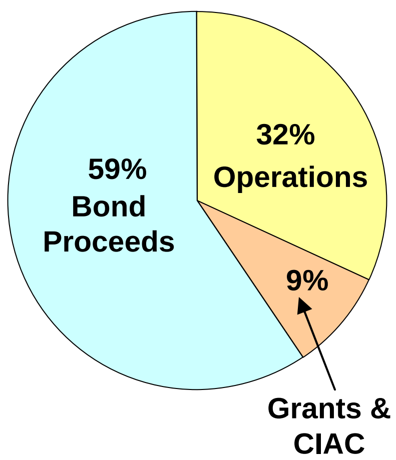
Debt Service is a Major Driver of Rate Increases in 2011-2016

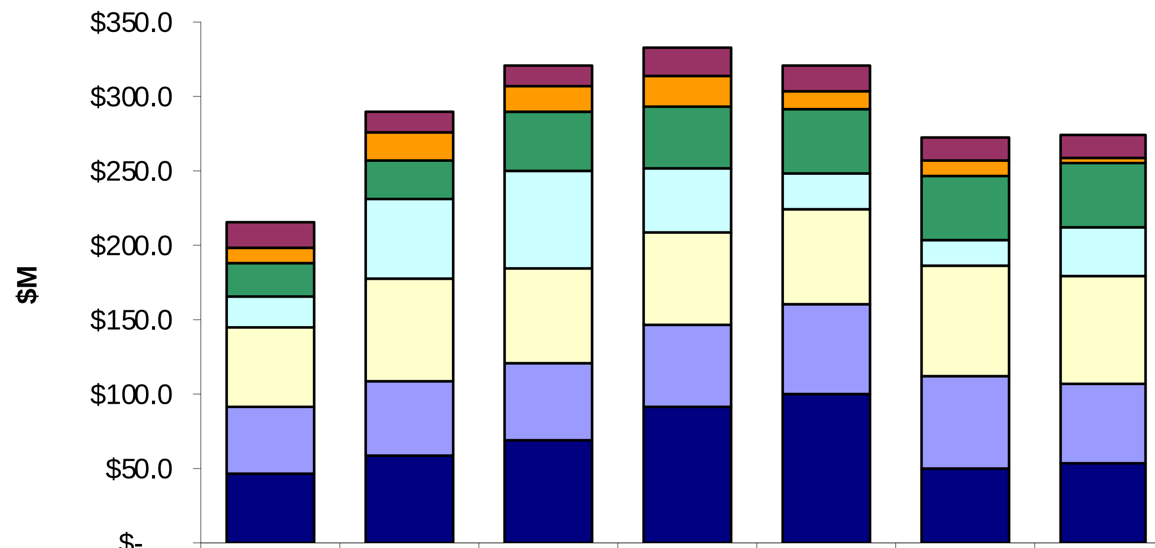
- Electric Utility business is very capital intensive
  - SCL has $2.7 billion in total assets at book value. $9+ billion at replacement value
- Debt Service results from spending on SCL's capital program and deferred O&M (conservation, relicensing, etc.)
  - ~$150M in capital spending results in a rate increase of 1%
  - Capital Program is funded 60% from debt, 40% from cash from operations
- Increases in Debt Service about 40% of the increase in the revenue requirement from 2010 to 2016
  - Increases in Debt Service on existing bonds about 87% of that

3.

Council Approved
6 Year Capital Improvement Program

Six-Year CIP Funding Sources





	2005-2010 Avg in 2011$s	2011	2012	2013	2014	2015	2016	2011-2016 Total
Facilities and Security	$16.2	$15.3	$14.4	$19.7	$18.5	$15.3	$15.0	$98.0
Information Technology	$12.3	$18.2	$17.2	$20.5	$11.7	$10.8	$3.3	$81.7
Conservation	$21.5	$26.1	$39.5	$41.2	$42.3	$43.2	$44.2	$236.6
Transportation and Interagency Projects	$21.0	$53.4	$64.9	$43.1	$24.2	$18.4	$31.4	$235.3
Capacity and Reliability	$52.6	$69.6	$64.4	$61.8	$65.0	$73.9	$73.8	$408.4
Transmission and Distribution	$45.3	$49.6	$52.2	$56.1	$59.7	$61.1	$53.5	$332.2
Resources	$46.8	$58.5	$68.5	$91.3	$100.2	$50.4	$53.1	$422.0
Total Expenditure	$215.7	$290.7	$321.0	$333.6	$321.6	$273.2	$274.3	$1,814.3

3.

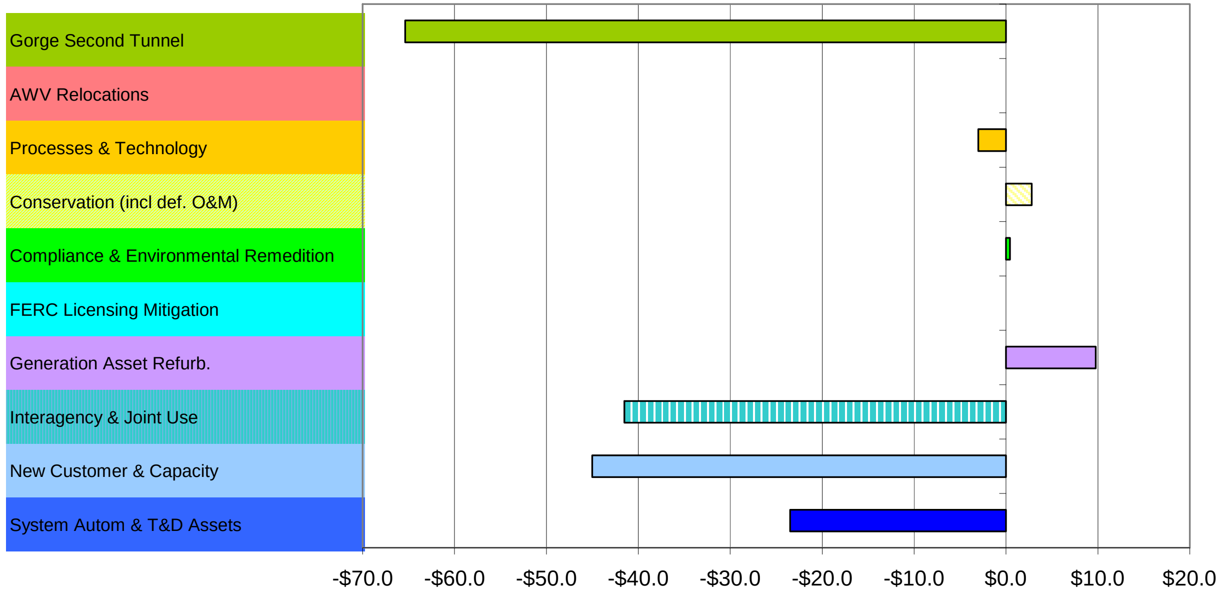
Capital Improvement Program Review for Financial Baseline

- Exercise:
  - Review 6 Year CIP to identify projects which could be reasonably deferred to minimize in order to minimize future rate increases, while maintaining current service levels, current asset replacement rates, meet legal requirements, serve new customers

- Results: 6 year CIP plan with ~$165M of net reductions

Changes in Strategic Plan Baseline from SCL Proposed
Officer Reviews and Adopted True Up
December 3, 2010

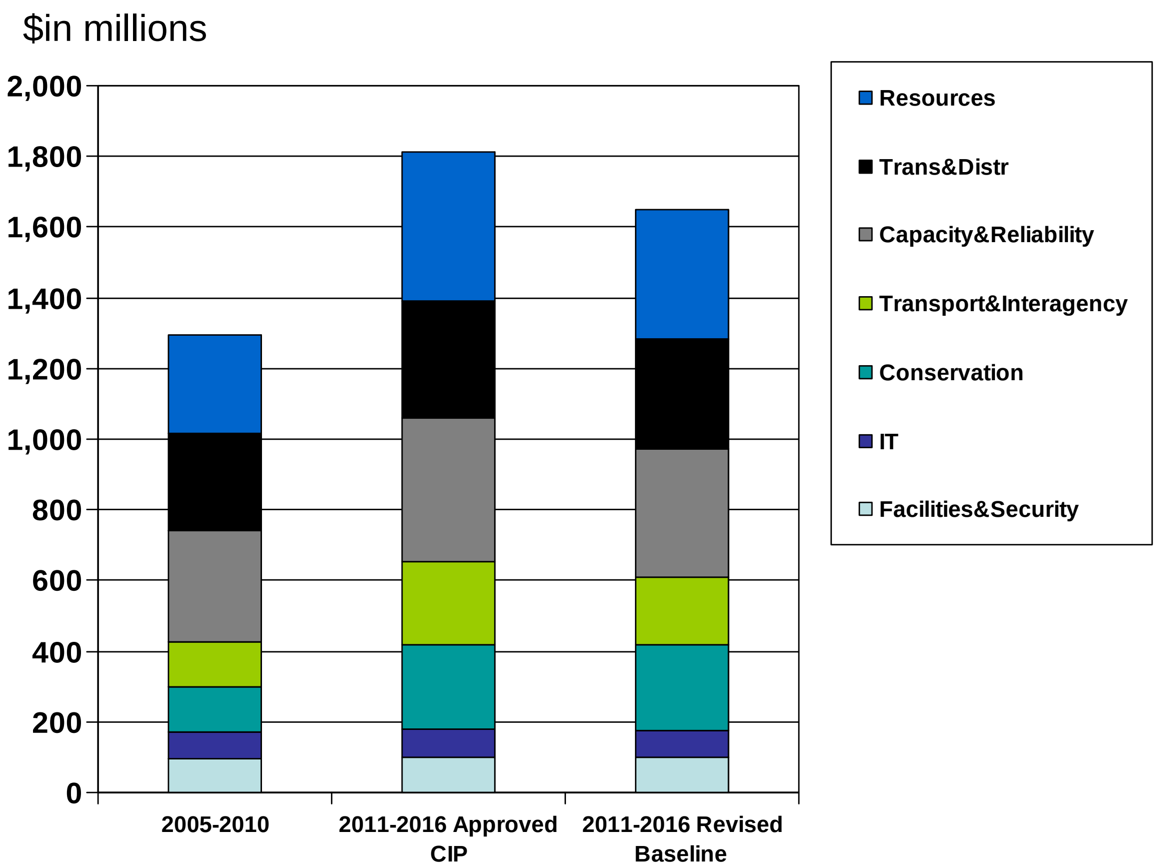
CIP Reductions (-) and Increases (+)



Figures are nominal appropriations in millions.

3.

Baseline Results: 6 Year Baseline CIP Spending



- **Includes**:
  - Increased conservation spending for I-937 Compliance
  - Alaska Way Viaduct Relocations
  - Some increased spending for reliability
- **Doesn't include**:
  - Smart Grid/AMI
  - All necessary investments for Capacity/Reliability
    - Regional Transmission
    - North Downtown Substation

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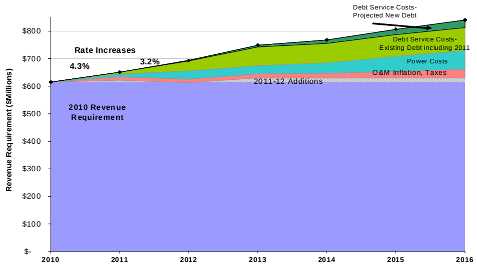
Financial Baseline document we will provide for your review at next meeting will address:

- Baseline Revenue Requirement & Rate Projection



- Key Assumptions for:
  - O&M
  - Capital / Debt Service
  - Other Elements of Revenue Requirement
  - **Including:**
    - Extent of Uncertainty
    - Policy Implications & Choices
    - Major Programs Included and Excluded

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