



THE RSA : POLICY OPTIONS

Paula Laschober | Review Panel Meeting December 8, 2015

THE RSA – A REVIEW

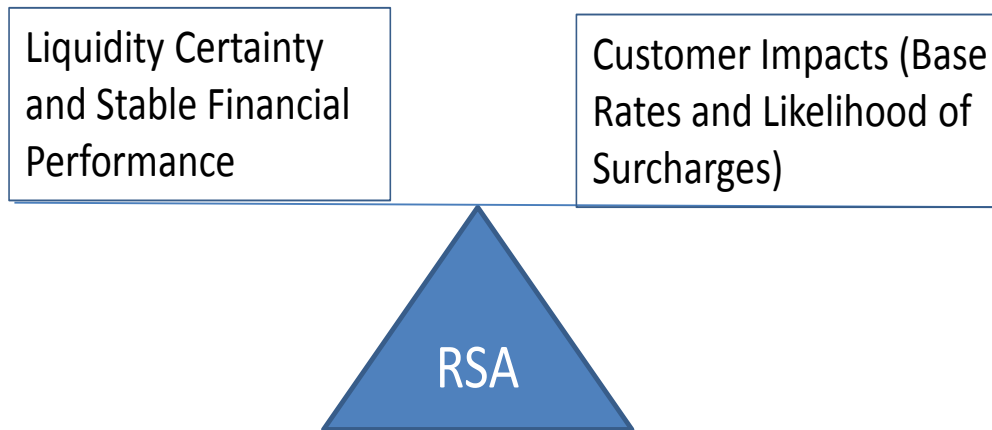
- Effective since: 2011
- Fund size: \$100 million Target
- Revenues buffered: net wholesale revenues
- Budget: conservative value set by strategic plan, roughly amount exceeded 3 out of 4 years.
- Refill mechanism: prescribed rules when RSA balance falls below certain amounts (see table).

RSA Rules

< \$90 million	Automatic 1.5% surcharge (adjusted quarterly)
< \$80 million	Automatic 3.0% surcharge (adjusted quarterly)
< \$70 million	Automatic 4.5% surcharge (adjusted quarterly)
< \$50 million	Review triggered to replenish the RSA to \$100 million within 12 months
<\$125 million	Review triggered to reduce the RSA to \$125 million within 12 months

THE RSA – POLICY QUESTIONS

1. **Revenue Target:** What uncontrollable revenues (or costs) should be buffered by the RSA?
 - How should we set the target? (How conservative?)
2. **Fund Size:** Is \$100 million the right size?
3. **Surcharge Parameters:** When should automatic surcharges be triggered? How large should they be?

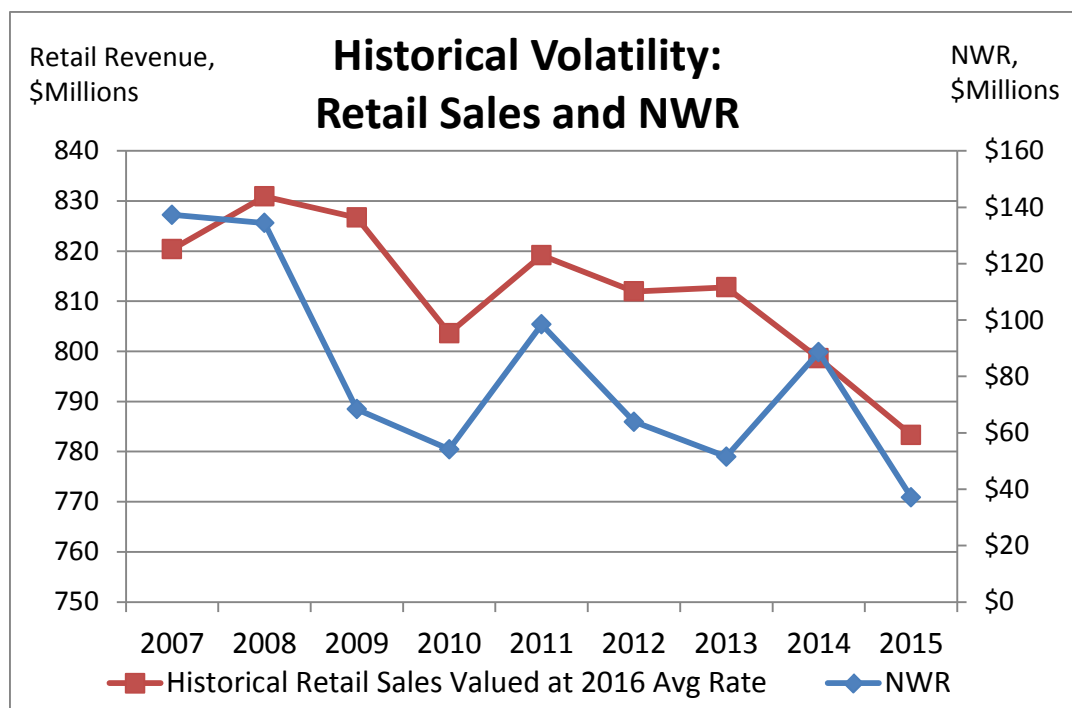


INCORPORATE RETAIL REVENUE IN RSA (DECOUPLING)

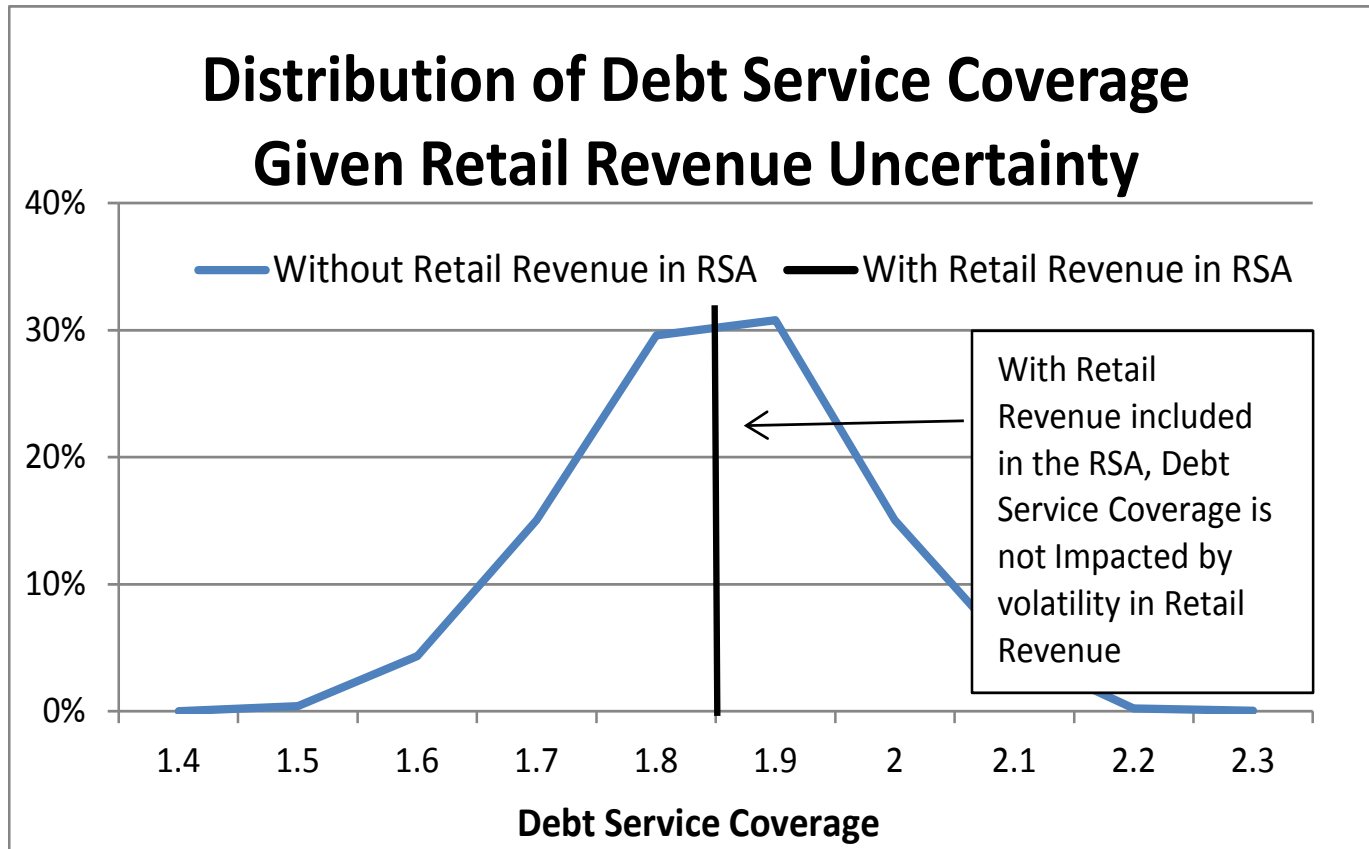
- The past few years have revealed retail revenue to be a non-trivial source of financial risk.
 - Weather, unanticipated energy efficiencies, and other uncontrollable factors affect customer consumption.
- Can we roll retail revenue into the RSA without introducing too much volatility to the RSA?
 - Retail sales are natural hedge to NWR
 - Lower retail sales mean more surplus energy to sell wholesale (and vice versa)
 - But, given other NWR uncertainties, Retail Revenue and NWR won't always move in opposite directions
 - Significant improvement to financial stability (debt service coverage, net income)

RETAIL AND WHOLESALE VOLATILITY

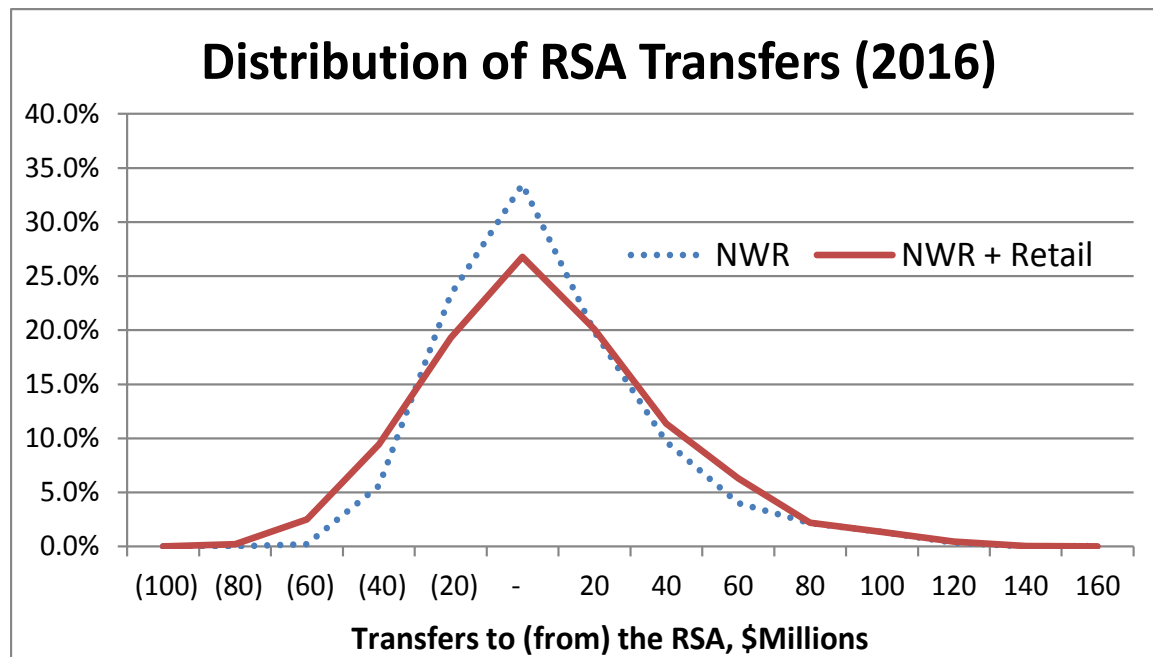
- Retail revenue uncertainty is primarily volume driven.
 - City Light has more certainty on the retail price (sets retail rates)
- Net wholesale revenue uncertainty is from both market prices and hydro conditions.



IMPROVED FINANCIAL STABILITY WHEN RETAIL REVENUE IS INCLUDED IN THE RSA



IMPACTS OF INCLUDING RETAIL REVENUE IN RSA



Over Three Year Period (2016-2018)				
RSA Revenue Target	Probability of the RSA Balance Being Lower than:			Probability of a Surcharge
	< \$10M	< \$30M	< \$50M	
NWR only	0%	0%	4%	56%
NWR and Retail Revenue	1%	2%	6%	56%

RELAX/SIMPLIFY SURCHARGE PARAMETERS

- What we've learned: RSA can fluctuate by \$10 million or more quarterly.
 - Is our current threshold too tight, risking unnecessary rate volatility?
 - Alternative surcharge rules →
- On the other hand, we know rating agencies see our high surcharge thresholds as credit positive.

RSA Automatic Surcharges (implemented quarterly)

< \$70 million	Automatic 3.0% surcharge
< \$40 million	Automatic 5.0% surcharge
< \$40 million	Review triggered to replenish the RSA to \$100 million within 12 months
<\$125 million	Review triggered to reduce the RSA to \$100 million within 12 months

ADD RULES FOR AUTOMATIC FUND DISPERSION

- Is Council review necessary to reduce RSA when it exceeds \$125 million?
 - Could set automatic rule to disburse excess funds to help fund the capital program
 - Reducing future debt issue, providing long term rate benefits.
 - A one-time rate reduction would result in short-term rate volatility.

CITY LIGHT RSA PROPOSAL

- Keep the RSA target balance at the current \$100 million.
- Include retail revenue in potential transfers in or out of the RSA.
- Lower the surcharge trigger threshold to \$70 million and simplify surcharge rules:
 - Initial surcharge of 3% will trigger if the RSA balance goes below \$70M.
 - A “safety net” 5.0% surcharge will trigger if the balance goes below \$40M.
- Implement an automatic mechanism for maintaining the RSA target when it goes above \$125M at year end:
 - Excess funds over \$100M used to fund the Capital Program.

Over Three Year Period (2016-2018)				
RSA Revenue Target	Probability of the RSA Balance Being Lower than:			Probability of a Surcharge
	< \$10M	< \$30M	< \$50M	
Current RSA Mechanism	0%	0%	4%	56%
Proposed Changes	1%	4%	13%	34%

OUR VISION

To set the standard—to deliver the best customer service experience of any utility in the nation.

OUR MISSION

Seattle City Light is dedicated to exceeding our customers' expectations in producing and delivering environmentally responsible, safe, low-cost and reliable power.

OUR VALUES

Excellence, Accountability, Trust and Stewardship.