

Seattle City Light

Presentation to the Advisory Committee

April 14, 2009

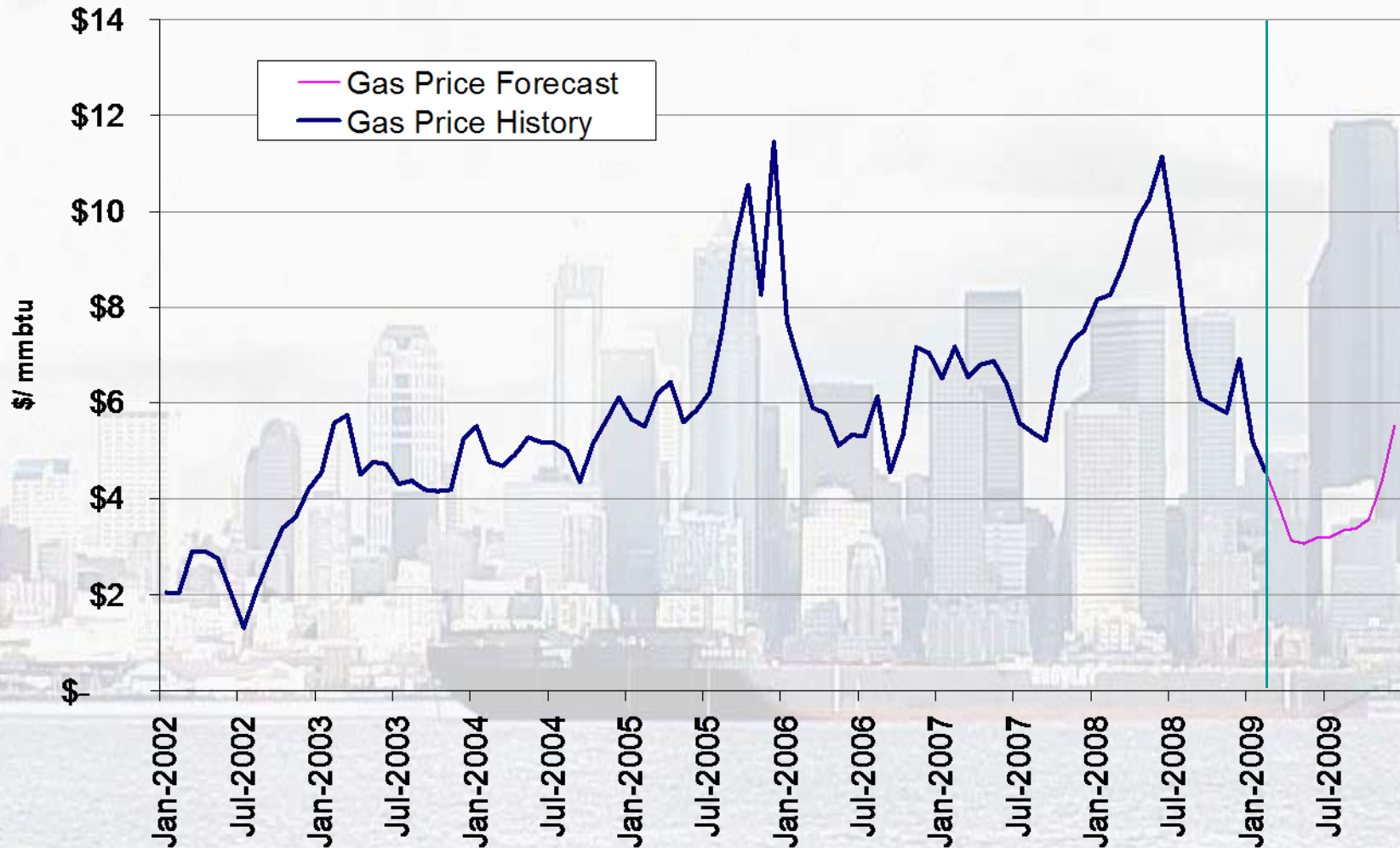
Recent History

- Since the energy crisis, SCL has kept rates low while building and maintaining financial strength.
 - Customer rates have decreased 12% since 2002.
 - Debt service coverage (DSC) on target, debt to capitalization ratios improving.
 - Healthy net income.
 - Small contingency reserve maintained at \$25 M.
 - Credit rating upgrades and successful bond issue in late 2008.
- Strong wholesale revenues have been a major contributor to SCL's financial strength.
 - SCL strategically augmented its resource portfolio in the aftermath of the 2000-01 western energy crisis.
 - SCL's large hydro generation resource portfolio provides a cost-effective supply of power and reduces our reliance on wholesale market.
 - Since 2002, rising energy prices and good hydro generation volumes have helped SCL realize wholesale revenues consistently over \$100 M, which has been a major factor in keeping customer rates stable.
 - 2008 financials also benefited from \$24.3 M one-time BPA refund from Residential Exchange Program.

Outlook for 2009

- Wholesale revenue forecast for 2009 is expected to be reduced by almost half (current forecast is \$80 M) due to falling energy prices.
 - Rate levels relied heavily on strong wholesale revenues in 2009 in order to realize financial policy targets.
 - Winter snowpack is tracking low, further reducing wholesale revenue prospects for 2009.
 - Retail revenues are also expected to fall as the weakening economy drives down customer demand.
 - Expected revenue shortfall compared to budget is about \$60 M.
- Continuing operations as usual will result in very poor 2009 end of year financials:
 - 1.2 Debt Service Coverage.
 - Very low Net Income of \$11 M. (was \$128 M in 2008)
 - Negative end-of-year cash of <-\$25 M. Cash reserves expected to be depleted by Q4, requiring use of contingency fund and/or borrowing from City cash pool.

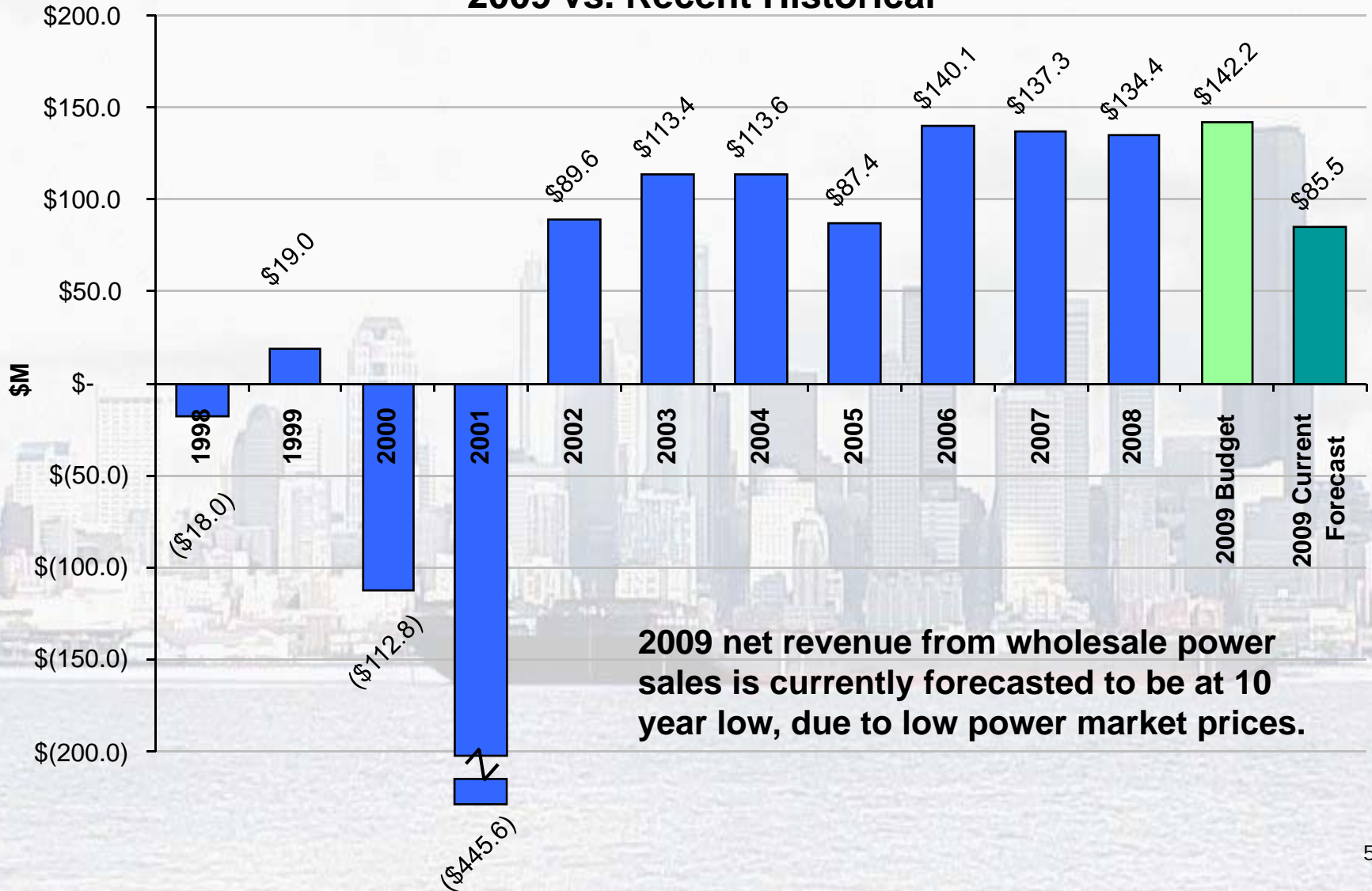
Falling Natural Gas Prices



2009 gas prices are forecast to be at their lowest levels since 2002.

Net Wholesale Revenues

2009 vs. Recent Historical



Cost Containment Plan for 2009

- SCL is implementing aggressive cost containment measures for 2009 to offset the \$60 M revenue shortfall.
 - \$21 M in O&M reductions, or 11% of controllable O&M. (excludes power purchases, debt service, and taxes.)
 - \$43 M in capital expenditure reductions, or 20% of SCL capital program.
- Resulting customer service effects will be significant.
- Expected financials with cost containment measures, assuming no further adverse changes:
 - Debt Service Coverage of about 1.4
 - Positive Net Income and end-of-year cash, borrowing not needed until early 2010.

<u>O&M Item</u>	<u>Reduction</u>
Tree Trimming	\$2.5 M
Distribution	\$5.2 M
Customer Care	\$1.1 M
Conservation	\$1.7 M
Power Generation	\$2.7 M
Training/Travel	\$0.9 M
Software/ IT Support	\$2.1 M
Vehicles	\$0.6 M
Admin. & Other	\$4.2 M
Total O&M Reductions	\$21.0 M
Capital Reductions	\$43.0 M
Total Reductions	\$64.0 M

2009 O&M Reductions: Customer Impacts

- Tree Trimming -\$2.5m
 - More outages.
 - Increased line clearance costs in future.
- Distribution -\$5.2m
 - More and longer outages.
 - No planned outages outside normal business hours to respond to business customer requests.
 - Slower response time for service connections.
- Customer Care -\$1.1m
 - Slower call answering time.
 - More estimated bills/more billing adjustments.
 - Slower billing/customer service response time.

2009 O&M Reductions: Customer Impacts

- Conservation -\$1.7m O&M, -\$4m deferred O&M
 - Reduced 5-Year Conservation Plan achievements.
 - Reduced commercial conservation payments.
 - Reduced funding for building efficiency upgrades.
- Power Generation -\$2.7m
 - Increased risk of unplanned generator outages.
 - Increased future costs to catch up with deferred maintenance.
 - \$1m lost revenue starting in 2011 due to deferral of dredging project at Diablo Dam (to be made up in retail rates).

2009 O&M Reductions: Employee Impacts

- Training and Travel -\$900,000
 - May reduce employee productivity, efficiency and morale.
- Computer Software and Support -\$2.1m
 - Run staff PCs to failure (50% are already more than 5 years old).
 - Run server and routers to failure, with less vendor support = doubling of IT system outages.
 - Outages during business hours will reduce staff productivity and will impact overall customer response quality.
- Vehicle maintenance and lease costs -\$600,000
 - Reduced vehicle availability may impact staff ability to work efficiently and respond to customers.

2009 Capital Expenditure Major Reductions

- North Downtown Network and Substation -\$9.9m
- Economic downturn -\$5.3M
 - New service connections
- Reassessment of priorities -\$7.2M
 - Boundary Unit 55 generator rebuild
 - Power stations oil containment
- Deferrals -\$8.3M
 - Planned vehicle purchases
 - Conservation and Boundary relicensing
- Inter-Agency Projects -\$15.7M
 - Viaduct startup costs less than budgeted
 - Mercer relocations and Spokane Street Exit project rescheduled
 - Other projects including transportation and franchise city undergrounding, which have slipped in recent past
- Addition-Mayor's Seattle Jobs Forward +\$3.0M
 - Pole replacement

Looking Forward to 2010

- Even with planned budget cuts, SCL cash reserves will be depleted by mid 2010. SCL will need to issue at least \$100M in debt in 2010 to continue to carry out its capital program.
 - Assumes 2010 capital spending cuts on par with 2009 and a rate increase in early 2010.
- Current debt service coverage of 1.4 likely insufficient to support a bond issue.
- Bond agencies have stated that they do not expect governments to be unaffected by the current economic climate, but they want to see evidence of a proactive plan for recovery.*
 - Increased rates and/or taxes
 - Lower spending

Looking Forward to 2010

- 2009-level reductions are not sustainable without significant reductions in customer service and roll-back of many improvement programs initiated in last few years.
- Financial and rate setting policies may not offer sufficient insulation from surplus power revenue volatility. Supplemental measures that may help buffer include:
 - More conservative wholesale revenue forecasting
 - Larger cash reserves
 - Automatic power cost adjustment mechanism
- A rate increase 2010 is crucial to re-establishing SCL's financial health.