



THE RSA : POLICY OPTIONS

Jeff Bishop | Review Panel Meeting February 2, 2016

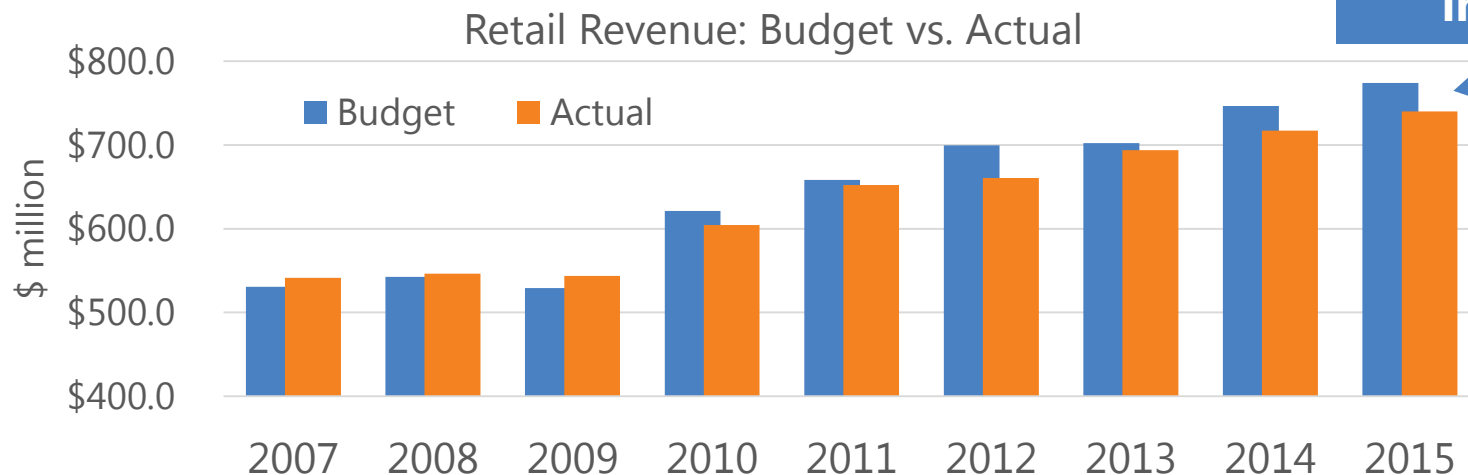
TODAY'S PRESENTATION

1. What are we trying to solve?
2. Options considered
3. Recommendation
4. Next Steps



THE PROBLEM: RETAIL REVENUE RISK

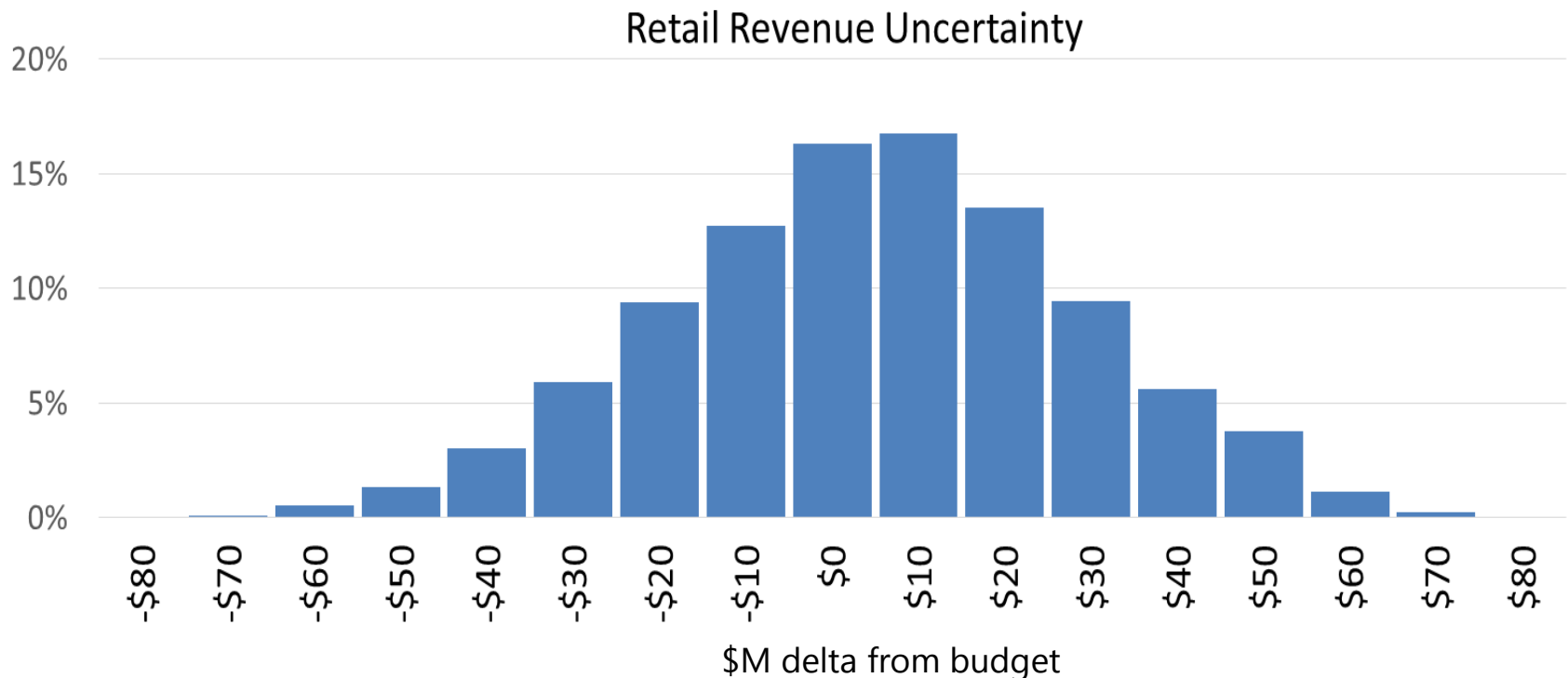
- Rates are locked in 1 to 2 years in advance by Strategic Plan/Budget. These rates are predicated on a forecast of retail sales.
- Retail sales volume has inherent, uncontrollable risks:
 - Weather (heating and cooling)
 - Short term economic impacts
 - Unanticipated efficiency/customer-driven conservation



**\$34+ million
revenue
shortfall
in 2015.**

RETAIL SALES ARE A SIGNIFICANT AND GROWING FINANCIAL RISK

- Retail sales risk has increased, now can vary just as much as wholesale sales.
- Load forecast is not designed to be a conservative view.

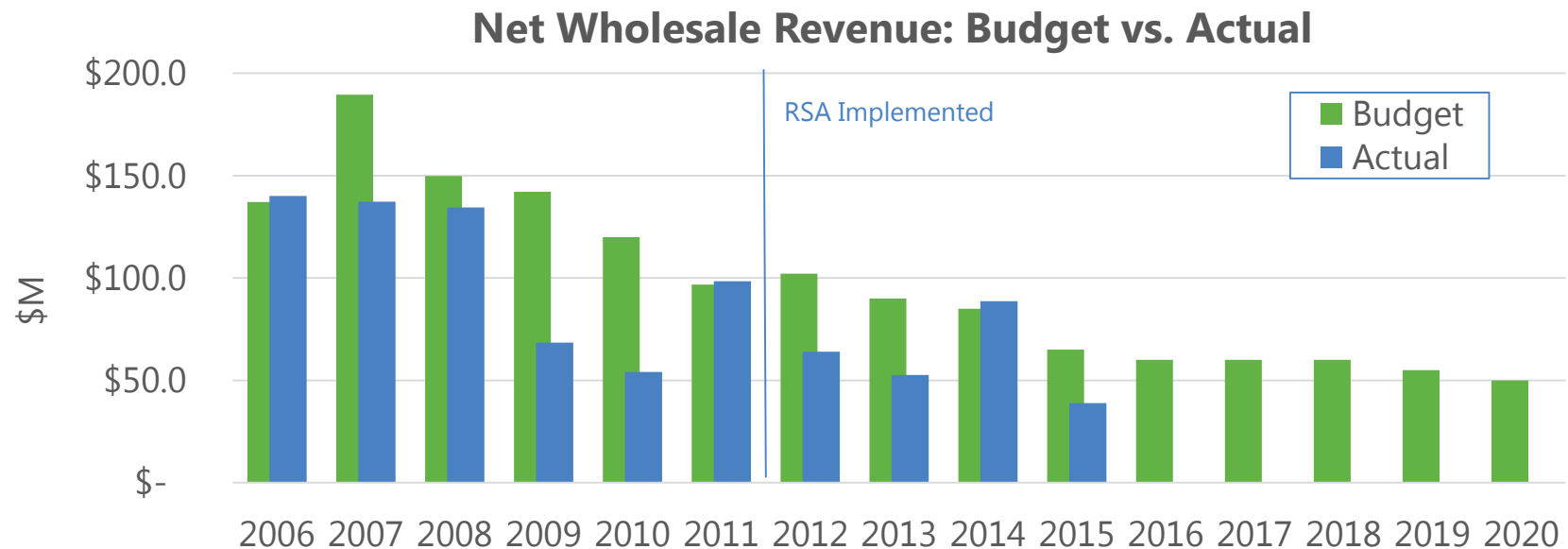


OPTIONS FOR DEALING WITH RETAIL REVENUE UNCERTAINTY

1. Status Quo: Accept financial uncertainty and address bad outcomes after the fact.
 - **Pro:** No changes.
 - **Con:** Risk not meeting financial targets and/or reactionary cuts to operations in years of low retail revenue, or out of period rate increases.
2. Reduce retail sales outlook to a more conservative view.
 - **Pro:** More certainty in meeting financial targets.
 - **Con:** Certain additional rate pressure.
3. Balance retail revenue risk with RSA.
 - **Pro:** Stabilizes financial performance.
 - **Con:** No expected change in surcharge probability except in extreme events.

THE \$100M RSA MAY HAVE EXTRA CAPACITY

- The RSA has proven to be an effective tool for managing market price and hydro risk in net wholesale revenue (NWR).
- Revenues from wholesale sales have declined, but the risk has too.
 - Strategic Plan conservative NWR budget also reduces downside risk.



CITY LIGHT RECOMMENDATION

- Recast RSA to be a NWR + retail revenue risk management tool.
 - Neutralizes retail sales risk, providing financial stability.
 - Stability improves City Light's ability to deliver on Strategic Plan commitments.
- Reduce initial surcharge trigger from \$90 million to \$70 million.
 - Allows RSA to buffer more naturally.
 - Reduces the probability of customer surcharges.
 - Reduces potential volatility in customer surcharges.

HOW WOULD THIS NEW RSA WORK?

- Similar to current RSA, but new RSA baseline would be retail revenue + wholesale revenue.
 - Retail baseline would be what was assumed in Strategic Plan/ Budget.
- Surcharge thresholds would be lowered, reducing probability of customer impacts.

Revised RSA Surcharge Rules

< \$70 million	Automatic 1.5% surcharge
< \$60 million	Automatic 3.0% surcharge
< \$50 million	Automatic 4.5% surcharge
< \$40 million	Review triggered to replenish the RSA to \$100 million
< \$125 million	Review triggered to reduce the RSA to \$100 million

CUSTOMER IMPACTS UNDER NEW RSA

- A new RSA with retail revenue generally does not change the chances of a surcharge.
 - Negative correlation between retail and wholesale sales means that many times, a retail sales difference will be at least partially offset by a wholesale sales difference.
 - However, worst-case revenue scenarios are more extreme when these two factors are combined.
- Lowering threshold to \$70 million will have a significant impact on the chances of surcharges.

	Probability* of Surcharge
RSA NWR only	56%
RSA NWR + Retail Revenue	56%
with lower \$70M threshold	32%

- A 1.5% surcharge equals about \$1 for a monthly typical residential bill.



CITY LIGHT

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.



APPENDIX



RETAIL AND WHOLESALE SALES ARE CORRELATED?

- City Light's power supply generally is ~90% hydro, and any MWh not sold retail is sold wholesale.
- Thus, if retail sales are lower for any reason– wholesale sales will be higher than they would be otherwise. (And vice versa.)



THE RSA – A REVIEW

- The RSA is a \$100 million reserve that stabilizes net wholesale revenues.
- Rules prescribed by ordinance for management:

RSA Balance	Action triggered
> \$125 M	Council review to reduce the RSA to < \$125 M within 12 months
< \$90 M	Automatic 1.5% surcharge (adjusted quarterly)
< \$80 M	Automatic 3.0% surcharge (adjusted quarterly)
< \$70 M	Automatic 4.5% surcharge (adjusted quarterly)
< \$50 M	Council review to replenish the RSA to \$100 M within 12 months