

CAPITAL IMPROVEMENT AND CONSERVATION IMPLEMENTATION PROGRAMS

The Department maintains long-range capital improvement and conservation implementation programs to ensure the availability of adequate supplies of power and to provide a high level of service reliability to its various customer groups. The six-year Capital Improvement Program (“CIP”) for the Department forms a part of the City’s Comprehensive Capital Improvement Program, which is mandated by the State’s Growth Management Act. The City’s biennial budget process determines the annual funding levels for both the CIP and the Conservation Implementation Program.

The Department’s current CIP emphasizes projects that address the long-term performance and reliability of its hydroelectric generation plants, substations and distribution systems. The Department’s Conservation Implementation Program provides funding for investments in the commercial and industrial sectors of the service territory to achieve the Department’s long-term energy savings goal.

The sections below describe the CIP and Conservation Implementation Program that the Department intends to implement over the 2004-2009 period.

Generation

The Department plans to spend \$150.3 million on generation plant improvements over the 2004-2009 period. Completion of the current program to replace turbine runners will require \$6.0 million in expenditures. The Department is beginning a comprehensive program to rebuild hydroelectric generators and plans to spend \$26.7 million over the 2004-2009 period to rebuild five generators. Other capital improvements at the Boundary and Skagit Plants are expected to require expenditures of \$57.2 million over the six-year period. Environmental mitigation projects required under the terms of the license for the Skagit Project are expected to cost \$44.7 million.

Transmission

Over the next six years, the Department expects to spend about \$29.6 million for expansion and replacement of transmission plant.

Substations

Substation expansion and improvements are projected to cost \$97.1 million over the 2004-2009 period. Major expenditures are programmed in 2007 through 2009 to construct the new Interbay Substation and in 2006 to acquire options on land for a future substation in the South Lake Union area. Projects also include the replacement of substation equipment to maintain reliability and to increase capacity to provide for load growth.

Distribution

The Department plans to spend \$504.9 million over the 2004-2009 period on improvements and additions to its distribution system. A major portion of these expenditures will be required to relocate infrastructure and provide capacity related to a number of large local transportation projects, including the development of a light rail system by Sound Transit, the construction of the Seattle Monorail and the replacement of the Alaska Way viaduct. The Department expects to be reimbursed for a portion of these costs. Other projects in this category include improvements to the downtown network distribution system, service connections and capacity additions.

General Plant

Programmed expenditures of \$94.2 million will support general plant improvements over the 2004-2009 period. Investments in information technology, including a major upgrade to the customer information and billing system and the implementation of work management systems, account for almost half of this amount (\$44.6 million). Improvements in communications systems are budgeted at \$13.6 million. Replacement of mobile equipment, which had been deferred over the past several years, will require the expenditure of

\$22.1 million. A total of \$3.1 million is expected to be spent for security enhancements in the Department's facilities.

High Ross Payment Amortization

In setting rates for the 2000-2003 period, the City Council directed the Department to amortize the \$21.8 million capital portion of the annual payment to B.C. Hydro under the High Ross Agreement through 2035. See "Power Resources—The Department's Resources—Ross, Diablo and Gorge Hydroelectric Plants." Each year from 2000 through the final capital payment in 2020, \$9.1 million of the annual payment will be deferred and \$12.7 million will be recognized as an expense. From 2021 through 2035, the deferred costs will be amortized through annual charges of \$12.7 million. The deferred portion of the payments to B.C. Hydro is treated as a component of capital requirements.

Conservation

Capital requirements also include \$126.2 million for the Conservation Implementation Program over the 2004-2009 period. This level of expenditure is expected to enable the Department to meet its annual target for energy savings through 2009. The emphasis of conservation programs in this period will be on the commercial and industrial sectors. See "Power Resources—Conservation."

Financing

Capital requirements of \$1.057 billion from 2004 through 2009 are expected to be financed through a combination of net revenues from operations, contributions in aid of construction, external funding of conservation programs, the remaining proceeds of the 2003 Parity Bonds, and the proceeds of the Bonds and future Parity Bonds and Subordinate Lien Bonds. In 2004, capital financing will be provided from the remaining proceeds from the 2003 Parity Bonds, the proceeds of the Bonds, contributions in aid of construction, external conservation funding and net revenues available after repayment of short-term debt and accrual of an operating cash balance of \$30 million, as required by current financial policies. From 2005 through 2009, net revenue available for capital financing is expected to total \$486.5 million, or 53 percent of capital requirements. Bond proceeds are expected to furnish 30 percent of capital financing over that period. The remainder of capital funding is projected to be provided by contributions in aid of construction, reimbursement of costs for transportation-related projects and external conservation funding.

IN THE PREPARATION OF THE PROJECTIONS IN THIS OFFICIAL STATEMENT, THE CITY HAS MADE CERTAIN ASSUMPTIONS WITH RESPECT TO CONDITIONS THAT MAY OCCUR IN THE FUTURE. WHILE THE CITY BELIEVES THESE ASSUMPTIONS ARE REASONABLE FOR THE PURPOSE OF THE PROJECTIONS, THEY DEPEND UPON FUTURE EVENTS, AND ACTUAL CONDITIONS MAY DIFFER FROM THOSE ASSUMED. THE CITY DOES NOT REPRESENT OR GUARANTEE THAT ACTUAL RESULTS WILL REPLICATE THE ESTIMATES IN THE VARIOUS TABLES SET FORTH IN THIS OFFICIAL STATEMENT. THE ELECTRIC INDUSTRY HAS UNDERGONE SIGNIFICANT CHANGES, AS DISCUSSED IN THIS OFFICIAL STATEMENT. POTENTIAL PURCHASERS OF THE BONDS SHOULD NOT RELY ON THE PROJECTIONS IN THIS OFFICIAL STATEMENT AS STATEMENTS OF FACT. SUCH PROJECTIONS ARE SUBJECT TO CHANGE, AND WILL CHANGE, FROM TIME TO TIME. THE CITY HAS NOT COMMITTED ITSELF TO PROVIDE INVESTORS WITH UPDATED FORECASTS OR PROJECTIONS.

NEITHER THE DEPARTMENT'S INDEPENDENT AUDITORS, NOR ANY OTHER INDEPENDENT ACCOUNTANTS, HAVE COMPILED, EXAMINED OR PERFORMED ANY PROCEDURES WITH RESPECT TO THE PROSPECTIVE FINANCIAL INFORMATION CONTAINED HEREIN, NOR HAVE THEY EXPRESSED ANY OPINION OR ANY OTHER FORM OF ASSURANCE ON SUCH INFORMATION OR ITS ACHIEVABILITY, AND ASSUME NO RESPONSIBILITY FOR, AND DISCLAIM ANY ASSOCIATION WITH, THE PROSPECTIVE FINANCIAL INFORMATION.

PROPOSED CAPITAL IMPROVEMENT AND CONSERVATION PROGRAMS (2004-2009)

	(000s)						
	2004	2005	2006	2007	2008	2009	Total
Generation							
Turbine Runner Replacements	\$ 217	\$ 1,403	\$ 3,433	\$ 218	\$ 38	\$ 693	\$ 6,002
Generator Rebuilds	1,078	79	5,665	6,109	6,528	7,287	26,746
Boundary Plant Improvements	4,545	5,836	6,342	4,567	1,725	1,610	24,625
Skagit Plant Improvements	1,463	6,084	7,817	5,555	4,878	6,814	32,611
Environmental Mitigation	3,850	12,486	6,372	7,116	8,510	6,390	44,722
All Others	4,071	2,308	1,288	3,806	1,520	2,576	15,571
Total Generation	\$ 15,224	\$ 28,196	\$ 30,917	\$ 27,371	\$ 23,199	\$ 25,370	\$ 150,277
Transmission	\$ 1,009	\$ 4,505	\$ 5,733	\$ 5,991	\$ 6,132	\$ 6,260	\$ 29,630
Substations	\$ 9,356	\$ 6,961	\$ 11,121	\$ 22,566	\$ 30,332	\$ 16,806	\$ 97,142
Distribution							
Network Additions and Services	\$ 18,018	\$ 16,022	\$ 17,189	\$ 18,174	\$ 19,053	\$ 19,448	\$ 107,903
Service Connections	13,458	14,008	14,374	12,822	13,145	13,398	81,205
Relocations and Capacity Additions	27,129	20,076	21,539	24,869	25,158	25,669	144,441
26KV Conversion	2,086	352	386	2,769	2,838	2,893	11,324
Regional Transit	3,734	13,345	12,305	9,862	2,158	884	42,288
Monorail	455	5,552	7,483	7,751	1,150	1,204	23,595
Alaskan Way Viaduct	520	1,089	1,456	9,686	9,930	10,120	32,801
Street and Floodlights	1,670	1,736	1,785	1,686	1,728	1,762	10,367
All Others	5,147	18,849	8,579	5,980	6,129	6,249	50,933
Total Distribution	\$ 72,217	\$ 91,029	\$ 85,096	\$ 93,599	\$ 81,289	\$ 81,627	\$ 504,857
General Plant							
Service Center Improvements	\$ 110	\$ 285	\$ 659	\$ 421	\$ 442	\$ 482	\$ 2,399
Communications Improvements	2,410	1,926	2,119	2,313	2,369	2,416	13,553
Information Technology	9,738	5,104	8,411	7,023	7,058	7,284	44,617
All Others	2,407	7,116	4,949	6,244	6,392	6,517	33,626
Total General Plant	\$ 14,665	\$ 14,431	\$ 16,138	\$ 16,001	\$ 16,261	\$ 16,699	\$ 94,195
Conservation	\$ 20,048	\$ 20,413	\$ 20,790	\$ 21,194	\$ 21,647	\$ 22,144	\$ 126,236
Deferred High Ross Expenses ⁽¹⁾	\$ 9,103	\$ 9,103	\$ 9,103	\$ 9,103	\$ 9,103	\$ 9,103	\$ 54,620
Total Expenditures All Projects	\$ 141,622	\$ 174,638	\$ 178,898	\$ 195,825	\$ 187,963	\$ 178,009	\$ 1,056,957
Sources of Funds							
Revenue Available for Debt Service	\$ 271,082	\$ 289,881	\$ 292,657	\$ 271,143	\$ 273,981	\$ 279,187	\$ 1,677,931
Less: Debt Service	129,376	135,744	139,218	142,241	146,929	153,396	847,162
Less: City Taxes	34,447	34,137	34,591	32,978	33,592	33,901	203,647
Less: Bond Reserve Deposits	1,377	0	0	0	0	0	1,377
Less: Contingency Reserve Deposits	0	14,000	11,000	0	0	0	25,000
Less: Other Funds Required	(4,412)	5,178	2,493	(4,815)	3,509	2,235	3,929
Less: Repayment of Cash Pool Loan	70,000	0	0	0	0	0	70,000
Less: Restoration of Operating Cash Balance	21,447	0	0	0	0	0	21,447
Revenue Available for Capital Projects	\$ 18,848	\$ 100,822	\$ 105,355	\$ 100,738	\$ 89,951	\$ 89,655	\$ 505,368
Proceeds from Contributions ⁽²⁾	21,717	34,930	32,026	35,121	27,395	26,680	177,869
Proceeds of the 2003 Bonds	72,289	0	0	0	0	0	72,289
Proceeds of the 2004 Bonds	28,767	31,233	0	0	0	0	60,000
Proceeds of Future Bond Issues	0	7,654	41,518	59,966	70,617	61,674	241,430
Total Funding for Capital Projects	\$ 141,622	\$ 174,638	\$ 178,898	\$ 195,825	\$ 187,963	\$ 178,009	\$ 1,056,956

(1) In adopting rates for the 2000-2003 period, the City Council directed the Department to defer and amortize the capital portion of annual payments to the Province of British Columbia under the High Ross Agreement over a period extending through 2035. From 2000 until the final capital payment is made in 2020, \$9.1 million in High Ross costs will be deferred. See "Power Resources—The Department's Resources."

(2) Includes contributions in aid of construction and customer payments for conservation. Also included from 2002 through 2006 are payments received from Bonneville to purchase conservation savings. See "Power Resources—Conservation."

Source: Seattle City Light, Finance Division