

## **Billing and Collection Processes**

The Department currently bills its residential customers and some small commercial customers bi-monthly and all other customers monthly. Such bills are due within 15 days of receipt. The Department has established various payment programs for its customers, including a levelized monthly payment program and an electronic funds transfer program. Accounts receivable write-offs by the Department in 2003 were equal to 1.6 percent of energy sales revenue. The Department's collection policy provides for disconnection of power for nonpayment of amounts due the Department, subject to statutory prohibitions against disconnecting customers in winter months.

## **Financial Policies**

The rate covenants in the Department's Parity Bond ordinances do not require the Department to set rates that achieve a specific level of debt service coverage on Parity Bonds. However, the City Council has adopted by resolution financial policies to be used by the Department in setting rates. From 1990 through December 2001, these policies required that rates be set at levels that would be expected to provide debt service coverage of 1.80 times debt service on Parity Bonds. In December 2001 the City Council adopted by resolution new financial policies which were to take effect after the Department had retired all short-term debt obligations incurred as a result of the wholesale market disruptions in 2000 and 2001 and had accumulated an operating cash balance of \$30 million. These conditions were met in July 2004.

The new financial policies require that rates be set at levels that will provide 95 percent confidence that net revenue available to fund capital requirements will be greater than zero, after payment of all operating and maintenance expenses, debt service, City taxes, deposits to the Parity Bond Reserve Fund, and other current obligations. Coverage is expected to exceed 2.0 times debt service on Parity Bonds under the new rate-setting policies. The new policies additionally require that, in the first two years after the effective date, rates be set at levels which will allow the accumulation of a \$25 million contingency reserve account. Current rate levels would allow the Department to meet the requirements of the new financial policies, including the creation of the \$25 million contingency reserve account. In its first annual report to the Mayor and City Council, the Advisory Board has recommended that the ultimate size of the contingency reserve account be increased to \$100 million, that amounts currently on deposit in the Bond Reserve Account be transferred to the contingency reserve account, and that the Department acquire a surety bond to meet the Parity Bond Reserve Requirement. The Advisory Board also recommended that the Department lower its ratio of long-term debt to capitalization to between 0.50 and 0.60 by 2011. The Advisory Board's recommendation will be considered by the City Council in the context of its review of rates in 2005. See "The Department—Retail Rates."

## **CUSTOMERS, ENERGY SALES AND PEAK LOADS**

### **Service Area**

The Department's 131 square-mile service area consists of the City plus areas extending three to four miles north and south of the city limits. Because of these geographic limitations, the growth of the Department's electric load has resulted exclusively from development within the service area.

Sales to customers located outside the City's boundaries but within the service area represent approximately one-sixth of retail energy sales and revenues. The Department has a franchise agreement with King County that extends until 2007 and franchises with the cities of Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila that expire between 2015 and 2018. These six jurisdictions represented over 99 percent of the Department's retail energy sales outside the City in 2003. The Department's service area also includes portions of the cities of Normandy Park and Renton.

### **Largest Customers**

The Department's ten largest customers in 2003, in order of their maximum kW demand, were the Boeing Company, Nucor Steel Company, the University of Washington, King County, Swedish Hospital, the United States Government, the Jorgensen Forge Corporation, the City of Seattle, Saint Gobain Containers, and

Unico Properties/Union Square Ltd. These customers accounted for approximately 16.9 percent of retail energy sales and 14.5 percent of retail energy revenues in 2003. The load factors of these customers ranged from 5.9 percent to 79.1 percent, with an average load factor of 43.6 percent.

### **Historical Sales**

Energy sales in the Department's service area can be affected by variations in weather conditions. Annual peak loads are typically experienced in the winter season. Colder than normal winter weather patterns can result in higher consumption, due to the extensive use of electricity for heating. However, warmer than normal conditions in summer months do not lead to increases in load of comparable magnitude because of the limited use of residential air conditioning. Temperatures in the service area were lower than normal in 2001, 2002 and 2003.

From 1991 through 2000, retail energy sales within the Department's service area increased at an average rate of 0.8 percent per year. In 2001 energy sales were 5.1 percent below the 2000 level. The amount of energy consumed by retail customers in 2001 was influenced by the Department's public appeal for reduced consumption, the price response to a series of substantial rate increases, the local effects of the general economic downturn, and the events of September 11, 2001.

Total sales of energy to residential customers, which constituted 33.2 percent of the Department's energy sales in 2003, were relatively stable over the 1991-2000 period. A 1.1 percent average annual increase in the number of customers during this period was off-set by a decline in average consumption per customer. The declining level of consumption per customer reflects smaller average household size, fuel-switching, the effect of conservation efforts, and enhanced energy efficiency elements of building codes. In 2003, residential consumption was 11.1 percent below the 2000 level.

Commercial and governmental customers accounted for 53.7 percent of total sales in 2003. Sales growth in these customer classes averaged 1.6 percent annually from 1991 to 2000. Consumption by commercial and governmental customers in 2003 was 1.3 percent above the 2000 level.

The industrial customers served by the Department represented 13.1 percent of retail sales in 2003. Sales to this sector exhibited a slight downward trend over the period 1991-2000, declining at an average annual rate of 0.3 percent. In 2003, sales to industrial customers were 13.6 percent lower than in 2000, reflecting the impact of rate increases in 2001 and an incomplete recovery from the economic downturn of the prior two years.

A record peak load of 2,059,566 kW was recorded in December 1990 due to unusually cold weather. The peak load for the winter of 2003-2004 was 1,808,179 kW during a period of cold weather in January 2004.

**RETAIL CUSTOMERS, ENERGY SALES AND ENERGY REQUIREMENTS  
(UNAUDITED)**

	1999	2000	2001	2002	2003
Average Number of Customers					
Residential	312,849	316,758	322,707	327,127	330,979
Commercial	30,568	30,839	30,934	31,418	32,380
Governmental	1,817	1,686	1,776	1,824	1,826
Industrial	279	276	259	263	260
Total Customers	345,513	349,559	355,676	360,632	365,445
Energy Sales (MWh)					
Residential	3,322,835	3,267,710	3,050,900	3,045,768	2,952,615
Commercial	3,753,167	3,932,043	3,829,360	3,872,749	3,945,058
Governmental	972,081	908,283	858,111	839,081	841,304
Industrial	1,349,809	1,352,457	1,237,424	1,165,532	1,166,967
Total Energy Sales <sup>(1)</sup>	9,397,893	9,460,493	8,975,795	8,923,130	8,905,944
Peak Demand (MW)	1,730	1,769	1,662	1,690	1,646
Energy Requirements (MWh)					
Total Energy Sales	9,397,893	9,460,493	8,975,795	8,923,130	8,905,944
Energy Used in Operation	36,207	35,296	32,144	33,672	31,556
Energy for Public Lighting <sup>(2)</sup>	0	78,436	78,741	78,859	72,357
System Losses <sup>(3)</sup>	573,170	460,470	392,236	491,005	520,158
Total Energy Requirements <sup>(4)</sup>	10,007,270	10,034,695	9,478,916	9,526,666	9,530,015

(1) Energy sales in the Department's service area only.

(2) From 2000 through 2003, the cost of streetlighting in the City of Seattle was recovered through the rates charged to all City of Seattle rate classes. In 1999, these costs were paid by the City's General Fund, and the energy imputed to streetlighting in 1999 is included in the figure shown for the Governmental rate class in the table above.

(3) Includes transmission and distribution losses.

(4) Firm energy required in the Department's service area.

Source: *Seattle City Light, Finance Division*