Summary of the Revenue Requirements Analysis for 2010

1. Introduction

This document presents a summary of changes in revenue requirements underlying the rate adjustments proposed to take effect on January 1, 2010. It also shows revenue requirements for 2011 and 2012, consistent with City Light's proposed three-year plan to restore the Utility's financial strength and fill the financial gap identified in 2009. It is expected that a full rate review process will be undertaken in 2010 to set rates for 2011 and 2012 consistent with that plan and the budget for those years. The revenue requirements forecast for 2010-2012 allows for gradual increases in average rates to be paid by retail customers, keeping these increases as low as possible while satisfying Council-mandated financial policies. This forecast assumes that those policies will be modified, as described later in this document.

Resolution 30761, passed by the City Council in May 2005, and Resolution 30933 passed in November 2006, which established current financial policies for City Light, require City Light to use a "flow of funds" approach (like cash flow) in discussing its revenue requirement forecast. Using this approach, Section 2 describes how the revenue requirements are determined and demonstrates that the Department expects to meet its financial policy targets. Section 3 identifies the major sources of change between the forecast for 2007-2008, which is the basis for the current rates, and the proposed 2010 revenue requirements. Section 4 identifies the major decisions taken to reduce the 2010 revenue requirements without proposed expenditure reductions or revisions to current financial policies to the amount of 2010 revenue requirements currently proposed.

2. How Revenue Requirements Are Determined

The objective of the Revenue Requirements Analysis is to determine the amount of revenue from customers that must be collected by the Department in a given calendar year to cover operating costs in that year and meet financial policies established by City Council resolution.

Operating costs and capital expenditure levels are set during the biennial budget process. Levels of expenditure are set so that Seattle City Light will have the staff and financial resources necessary to support key activities and projects. The amount of revenue required from customers is calculated after operations and maintenance expenses, capital expenditures, other sources of revenue, and cash balances required by financial policy are projected.

Table 1 shows the flow of funds in the financial forecast for 2009-2012. City Light proposes to set rates so that expected revenues from customers before discounts will total $587.8 million in 2010 and increase to $629.6 million in 2011 and $690.3 million in 2012. At that level, revenues from customers plus wholesale power and other expected sources of revenue will be sufficient to pay for City Light's power contracts, operations, debt service, taxes and other expenditures and also meet its financial policy targets, assuming that these targets are modified as described below.

Table 1

Cash Flow
(All Dollar Figures in Millions)

	2009	2010	2011	2012
Cash from Retail Power Sales before Discounts	$540.1	$587.8	$629.6	$690.3
Cash from Wholesale Power Sales, Net	69.2	120.0	116.1	90.5
Cash from All Other Sources	72.7	70.2	71.3	68.2
Cash to Power Contracts	-260.8	-293.4	-284.1	-274.4
Cash to Operations	-193.4	-201.7	-217.8	-219.0
Cash to Rate Discounts	-5.5	-6.1	-6.5	-7.0
Cash to Uncollectable Revenue	-4.9	-5.3	-5.7	-6.2
Cash to State Taxes and Franchise Payments	-28.0	-30.3	-32.0	-34.6
Cash Available for Debt Service	**$189.3**	**$241.1**	**$270.9**	**$307.8**
Cash to City Taxes	-33.9	-37.2	-39.5	-43.5
Cash to All Other Purposes	-15.4	0.8	-9.5	-9.8
Cash to Debt Service	-144.8	-150.7	-159.4	-171.0
Cash from Operations	**-$4.8**	**$54.0**	**$62.5**	**$83.6**
Cash from Contributions	25.0	29.7	30.7	33.8
Cash from Bond Proceeds	196.2	176.3	148.7	160.3
Cash to Capital, Conservation and Deferred O&M	**$216.4**	**$260.1**	**$242.0**	**$277.7**

During the 2010 rate-setting process, City Light anticipates that the City Council will pass a resolution revising the existing financial policies as part of its strategy to gradually spread the increase in revenue requirements over 2010-2012. In 2005 Resolution 30761 established the following financial policies for City Light that determined the Revenue Requirements used to set rates in 2007-2008: 2.0 coverage of all first and second lien debt service, 95% confidence of $1 or more operating revenue available for capital expenditures, a minimum operating cash balance of $30 million and a $25 million contingency reserve. It also established a goal of reducing the Department's debt-to-capitalization ratio to 60% by the end of 2010. SCL is proposing the following changes to its financial policies: reduce debt service coverage targets to 1.6 in 2010, 1.7 in 2011 and 1.8 in 2012 and thereafter, in combination with an automatic Power Revenue Adjustment Mechanism (PRAM) described below, no targeted confidence level for operating revenue available for capital expenditures, and a 60% debt-to-capitalization goal that is attained in 2012 rather than 2010.

As part of its proposed changes to its financial policies City Light also is proposing and anticipating passage of an ordinance allowing it to establish a mechanism to periodically pass through to customers the financial risk associated with volatility in revenue from wholesale power transactions. This Power Revenue Adjustment Mechanism (PRAM) will increase the revenue certainty of the Utility by placing a charge on customer energy sales when wholesale revenue is below the planned level and providing a credit to customers when wholesale revenue is higher than planned. By increasing the certainty in revenue, the PRAM allows City Light to modify its financial policies as described in the preceding paragraph. This will allow the Department to reduce the size of rate increases compared to meeting the existing financial policies. However, while customer base rates will be lower with the PRAM, the total rates billed to customers will be less stable.

City Light's financial policy targets and their level of expected achievement for the 2010-2012 period are displayed in Table 2. Table 2 also displays other key financial indicators.

Table 2

Financial Policy Targets and Key Financial Indicators
(All Dollar Figures in Millions Except Where Noted)

	2009	2010	2011	2012	Target
Debt Service Coverage - Current Year	1.31	1.60	1.70	1.80	√
Debt Service Coverage - Average for ThreeYears	1.75	1.65	1.54	1.70	
M$ Net Income	$36.8	$78.4	$94.5	$104.6	
M$ Year-End Balance in Operating Cash Account	$28.1	$50.1	$99.6	$50.0	√
M$ Year-End Balance in Contingency Reserve Account	$25.0	$25.0	$25.0	$25.0	√
M$ Year-End Balance of Accumulated Net Income	$830.9	$909.3	$1,003.7	$1,108.3	
M$ Year-End Balance of Debt Outstanding	$1,383.1	$1,502.3	$1,622.6	$1,649.6	
Debt as a Percent of Total Capitalization	62%	62%	62%	60%	√
$ per MMBTU of Natural Gas	$3.50	$5.34	$6.31	$6.61	

3. Changes in Rates and Revenue Requirements in 2010-2012

Table 3 displays the changes in rates billed to retail customers, before low-income discounts, required to produce the cash flows displayed in Table 1 to meet the financial policy targets displayed in Table 2. In addition to the change in average system rates on January 1 of each year, this table shows the amount of BPA costs passed through to customers on October 1 of each year. The BPA pass-through is added onto the "Average System Rate after Rate Change" amount for that year and the combined total is the basis for the "Annual System Rate before Rate Change" on January 1 of the following year. Since residential customers are often more interested in knowing the bill impacts of rate changes than the rate impacts, Table 3 also displays the effect of rate changes on the average monthly residential bill.

Figure 1 presents changes in rates in a historical context, showing that although they are projected to increase over the next three years, these increases are moderate when adjusted for inflation and reflect a gradual long-term upward trend (about 1% growth in constant dollars) that was interrupted in 2001-2006, when higher rates were needed in order to return the Department to financial health in the aftermath of the 2000-2001 energy crisis. Rates have been flat for the past three years in nominal dollars, declining in constant dollars. For this reason, they have not been able to keep pace with growth in operating expenditures and no longer produce sufficient revenue to allow City Light to meet its financial policy targets.

Table 3
Changes in Average Rates and Monthly Bills

	2009	2010	2011	2012
Month of Rate Change		Jan	Jan	Jan
Average Annual System Rate before Rate Change ($ per MWh)	$56.47	$57.47	$62.83	$66.92
Average Annual System Rate after Rate Change	$56.47	$62.53	$66.22	$71.33
Dollar Change in Average Annual System Rate	$0.00	$5.06	$3.38	$4.42
Percent Change in Average Annual System Rate	0.0%	8.8%	5.4%	6.6%
Average Residential Monthly Bill before Rate Change ($)	$43.90	$44.68	$48.85	$52.02
Average Residential Monthly Bill after Rate Change	$43.90	$48.62	$51.48	$55.46
Dollar Change in Average Residential Monthly Bill	$0.00	$3.93	$2.63	$3.43
Percent Change in Average Residential Monthly Bill	0.0%	8.8%	5.4%	6.6%
BPA Pass Through Effective Oct 1 ($ per MWh)	$1.00	$0.30	$0.70	$0.00
Percent Increase in Average Annual System Rate	1.8%	0.5%	1.1%	0.0%

Figure 1

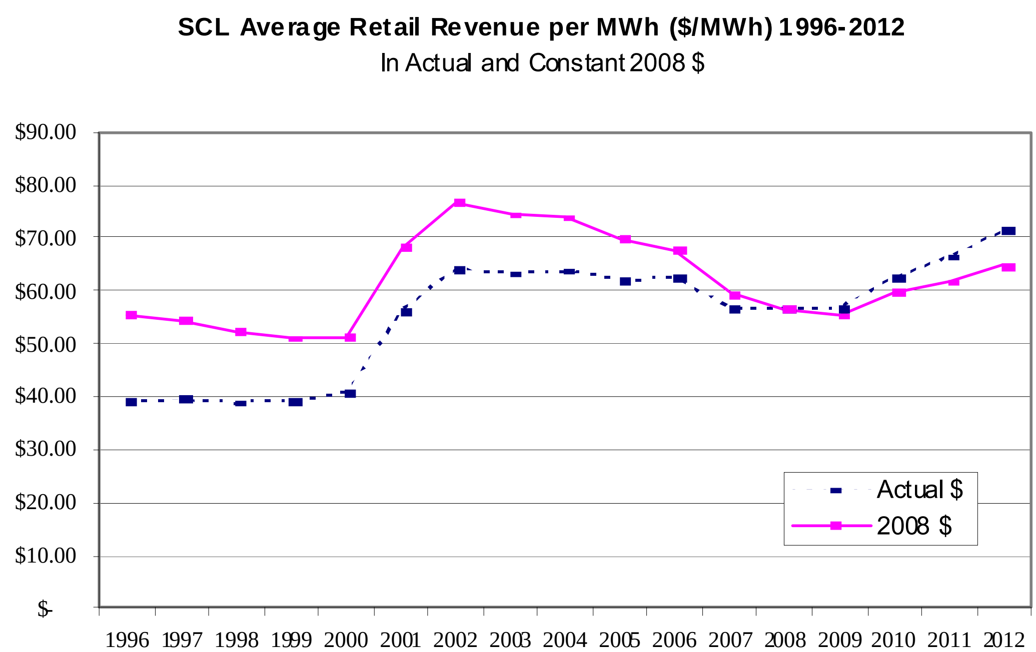

Table 4 compares the current projected revenue requirements in 2010 with revenue requirements in the forecast used to set rates in 2007-2008. Reasons for the increase in these requirements include lower wholesale revenue, lower retail load, higher expenditures for certain power contracts, growth in operating expenditures for existing programs due to inflation and above-inflation increases in certain labor and nonlabor costs, and new expenditures for programs approved in budgets passed after the 2007-2008 rates were set.

Table 4

Change in Revenue Requirements from 2007-2008 Rate Forecast to Current 2010 Forecast
(All Dollar Figures in Millions)

	2007-2008	2010	Gap $	$ per Mwh	% Change
Cash from Rate Changes Implemented on Jan 1, 2010	0.0	47.5	47.5	5.06	8.8%
equals					
Cash from Rate Changes Implemented after Jan 1, 2010	0.0	-0.7	-0.7	-0.08	-0.1%
Cash from Rate Changes Implemented before Jan 1, 2010 not in the Average Annual Rate Planned in the Rate Study for 2007-2008	0.0	-11.4	-11.4	-1.22	-2.1%
Cash from Retail Power Sales before Discounts at the Average Annual Rate Planned in the Rate Study for 2007-2008	-539.3	-528.1	11.2	1.19	2.1%
Cash from Wholesale Power Sales, Net	-169.7	-120.0	49.7	5.30	9.2%
Cash from All Other Sources	-56.6	-70.2	-13.6	-1.45	-2.5%
Cash to Power Contracts	276.0	293.4	17.4	1.86	3.2%
Cash to Operations	153.5	201.7	48.3	5.14	8.9%
Cash to Rate Discounts	5.6	6.1	0.5	0.06	0.1%
Cash to Uncollectable Revenue	5.4	5.3	-0.1	-0.01	0.0%
Cash to State Taxes and Franchise Payments	28.2	30.3	2.2	0.23	0.4%
Cash to Debt Service Coverage	297.1	241.1	-56.0	-5.96	-10.4%

The components of Table 4 are explained in more detail below.

3.1 Cash from Retail Power Sales before Discounts

The $587.8 million 2010 Retail Power Sales Before Discounts displayed in Table 1 is equal to the Table 4 sum of Cash from Rate Changes Implemented on January 1, 2010; Cash from Rate Changes Implemented after January 1, 2010; Cash from Rate Changes Implemented before January 1, 2010 not in the Average Annual Rate Planned in the Last Rate Study for 2007-2008; and Cash from Retail Power Sales before Discounts at the Average Annual Rate Planned in the Last Rate Study for 2007-2008. The $47.5 million increase in Cash from Rate Changes Implemented on January 1, 2010 represents the amount that must be collected by increasing the system average rate from the average rate that was set during the 2007-2008 rate process. Cash from Rate Changes Implemented after January 1, 2010 and Cash from Rate Changes Implemented before January 1, 2010 not in the Average Annual Rate Planned in the Last Rate Study for 2007-2008 include BPA pass-throughs in October 2009 and October 2010 that increase average system rates billed to customers by $10.1 million in 2010. This is a mechanism, approved by City Council Ordinance, enabling City Light to pass through to retail customers any changes in amounts charged by BPA arising from changes in BPA's rate schedule. Cash from Rate Changes Implemented before January 1, 2010 not in the Average Annual Rate Planned in the Last Rate Study for 2007-2008 also reflects changes in customer load, demand, suburban city rate increases per franchise agreements and other patterns of use affecting retail revenue since 2007-2008 that allow City Light to collect slightly more revenue than originally anticipated even without a change in the rate schedules. Cash from Retail Power Sales before Discounts at the Average Annual Rate Planned in the Last Rate Study for 2007-2008 is the amount that would be billed to retail customers in 2010 assuming no change in current rates. It is $11.2 million lower than projected 2007-2008 retail revenue because of reductions in retail load, increasing the amount of revenue that must be collected from new retail rates.

3.2 Cash from Wholesale Power Sales, Net

Table 1 shows that Wholesale Power Sales Net of Purchases are projected to increase from $69.2 million in 2009 to $120.0 million in 2010, a year to year increase of $50.8 million, but Table 4 shows that this is $49.7 million lower than the amount projected for 2007-2008 in the previous rate-setting process. This is the largest single component of the gap to be filled by increasing retail rates in 2010. The forecast used to set rates in 2007-2008 assumed that 3.4 million MWh of surplus energy would be available for sale, net of purchases, in 2007 and 3.2 million MWh in 2008, at an average sales price of $56.14/MWh in 2007 and $47.75/MWh in 2008. The current forecast for 2010 assumes that only 3.0 million MWh of energy will be available for sale at an average sales price of $40.17/MWh, which reflects a gas price assumption of $5.34 per MMBtu, down nearly 30% from the $7-$8 range assumed in the 2007-2008 forecast.

3.3 Cash From All Other Sources

Cash from all other sources is projected to total $70.2 million in 2010, a $2.5 million decline from $72.7 million in 2009, shown in Table 1, but $13.6 million higher than the amount projected in the 2007-2008 rate forecast, displayed in Table 4. Cash from power contracts increased $6.8 million from the amounts projected to set 2007-2008 rates. Most of that increase reflects $6.0 million in credits to be received from BPA, to reimburse City Light and other public utilities for overpayment in prior years of charges related to BPA's Residential Exchange program with investor-owned utilities. City Light began receiving these credits in 2008 and expects to continue receiving them through September 2015 because this is very likely to happen although not completely certain beyond the current fiscal year. Cash from power marketing activities projected for 2010 is $2.0 million higher than the amount assumed in the 2007-2008 rate study. Reasons for the increase include more revenue from basis trades, capacity sales and green tag sales. In addition, cash from the sale of other renewable energy credits, billable operating and maintenance work, reimbursement for work on cell sites, and revenue from curbing energy losses caused by current diversion and unpermitted house rewires is projected to be $4.8 million greater than the amount projected for 2007-2008. Sales of surplus property are $4.3 million lower in the current 2010 forecast than those projected in the forecast used to set rates in 2007-2008 because the sale of an $8.5 million property in South Lake Union, which had been projected to occur in 2007, has been delayed for several years and removed from the forecast until it becomes more certain. Investment income is $1.5 million below the average amount in the 2007-2008 revenue requirements forecast because of lower interest-earning balances and lower interest rates.

3.4 Cash to Power Contracts

Cash to power contracts projected for 2010 is $17.4 million higher than the average amount projected to set rates in 2007-2008. Expenditures for Priest Rapids power purchases increased the most, rising $10.8 million, due to new contract terms. This is followed by wheeling charges, up $8.4 million, and water for power expenses, up $6.1 million because of increases in FERC administrative and land rent charges. Sierra Pacific Industries and Columbia Ridge, resources that have been added to the forecast since 2007-2008 rates were set, jointly increased cash to power contracts by $4.5 million in 2010. These increases, and a variety of smaller ones, were partially offset by a $7.9 million reduction in expenditures for Lucky Peak, which has become a less expensive resource now that its debt has been completely paid off, and a $6.5 million decrease in BPA purchases.

3.5 Cash to Operations

Cash to operations projected for 2010 is $48.3 million higher than the average amount projected to set rates in 2007-2008. Cash to operations is a sum of cash spent on production, transmission, distribution, conservation, customer accounting and administration.

Cash to production is $10.5 million higher. Key reasons include increased staffing and space rentals to support power marketing, risk management, settlements and new resource acquisition functions; succession planning at Skagit facilities; a variety of maintenance projects at both Skagit and Boundary required in order to comply with FERC, NERC, WECC and U.S. Coast Guard safety and reliability standards and regulations, and projects undertaken at Boundary to meet FERC requirements for relicensing in 2011.

Cash to transmission is $3.3 million higher. This increase primarily reflects rising labor and materials costs for ongoing maintenance of transmission property and equipment. It also includes increased expenditures for security and safety.

Cash to distribution is $10.1 million higher. Rising labor costs are a major contributor to this increase. Specific planned expenditures in 2010 that also contribute to this increase include streetlight relamping, pole testing and treatment, reimbursable cell site and pole attachment construction, feeder maintenance, vegetation management, the apprenticeship program, planning and training mandated by NERC to improve reliability, security services, a crane safety program, and asset management and work management programs.

Cash to conservation is $6.3 million higher. This increase mainly represents staffing required to plan, administer and evaluate City Light's "Conservation Five Year Action Plan," although this program has been scaled back a little since originally proposed in 2008. The plan aims to significantly expand City Light's energy conservation acquisition goals in 2008-2012.

Cash to customer accounting is $5.3 million higher. Higher labor costs are a significant component of this increase, particularly expenditures for meter reading and customer assistance. It also includes increased expenditures for an expanded Call Center.

Cash to administration is $12.7 million higher. Like several previous line items, this increase also reflects significant growth in labor costs. Other major contributing factors are growth in payments for toxic cleanup at the Duwamish Superfund site; the Climate Program and purchases of greenhouse gas offsets, space leases and rentals, IT expenditures; the apprenticeship program; a variety of human resources training programs including safety training, training mandated by the Mayor's office to promote equal opportunity and prevent workplace violence and sexual harassment; and low income assistance programs (excluding rate discounts).

3.6 Cash to Rate Discounts

Cash to rate discounts projected for 2010 is $0.5 million above the average level projected to set rates in 2007-2008. Residential customers that qualify for City Light's low-income rate discount program pay rates that are 40% of standard residential rates. This discount is available to customers who receive Supplemental Security Income and households with incomes less than 70% of the Washington State median income. Since standard rates are projected to increase in 2010, this 60% discount offered to low-income customers is also projected to increase, proportionately.

3.7 Cash to Uncollectable Revenue

Cash to uncollectable revenue is $0.1 million lower than the average amount projected to set rates in 2007-2008. This mainly reflects improvements in City Light's collection processes, reducing the amount of revenue that must be written off as uncollectable. The forecast used to set rates in 2007-2008 assumed that the percent of retail energy sales that would not be collectable would be 1.1% in 2007, dropping to 0.9% in 2008 and later years because of improved collections. The current forecast for 2010 assumes 0.9%.

3.8 Cash to State Taxes and Franchise Payments

Cash to state taxes, franchise payments, and contractual payments to local governments in lieu of taxes are projected to be $2.2 million higher than the average 2007-2008 amount projected in the previous rate-setting process. Most of the increase is in state tax payments, which are $1.5

million higher because of higher retail revenue from new rates. Franchise payments are up $0.5 million and in-lieu-of-tax payments to local governments are up $0.1 million.

3.9 Cash to Debt Service Coverage

Cash to debt service coverage projected for 2010 is $56.0 million lower than the average amount used to set rates in 2007-2008. There are two key reasons for this: a lower target debt service coverage ratio and a very small increase in the amount of debt service to be covered. As mentioned previously in Section 2, City Light anticipates that its financial policies will be revised by City Council during the current rate setting process, allowing the debt service coverage ratio target to be reduced from 2.0 times all first and second lien debt service to 1.6 in 2010, 1.7 in 2011 and 1.8 in 2012. The reduction of this target from 2.0 to 1.6 in 2010 reduces the amount of cash required to meet it by $60.3 million. The amount of debt service to be covered in 2010 is only slightly above the average amount projected during the 2007-2008 rate-setting process because no new debt is projected to be issued during 2009. The next debt issuance, which is projected at $200 million, is expected to be in March 2010 and no interest or principal payments will be made on that debt until 2011. This delay reduces debt service in 2010 by $4.8 million and reduces the amount of cash required to cover it 1.6 times by $7.7 million.

4. Bridging the Gap: Management Decisions Taken to Reduce the Size of the 2010 Rate Increase

During the current rate-setting process, City Light management has made a series of decisions aimed at moderating the size of the rate increase to be implemented on January 1, 2010, to keep it a level acceptable to City Light ratepayers during an economically challenging time. The $47.5 million Cash from Rate Changes Implemented on January 1, 2010 displayed in Table 4 is $94.2 million less than the $141.7 million that would have been required without these decisions. Table 5 displays the components of the $141.7 million that would have been required and the associated rate impacts in dollars per MWh and as percentage increases. Table 6 displays the differences between components of the $141.7 million and components of the currently proposed $47.5 million increase in revenue requirements. This last table shows that the three main contributors to the reduction in proposed 2010 revenue requirements are a $6.6 million increase in cash from other sources, a $12.7 million decrease in cash to operations and a $69.9 million decrease in cash to debt service coverage. These changes directly reflect management decisions. The smaller changes in cash to rate discounts (down $1.0 million), cash to uncollectable revenue (down $0.8 million), and cash to state taxes and franchise payments (down $3.1 million) are indirect effects resulting from the lower amount of new retail revenue required by the current rate proposal.

Table 5

Change in Revenue Requirements from 2007-2008 Rate Forecast to Current 2010 Forecast before Decisions
(All Dollar Figures in Millions)

	2007-2008	2010	Gap $	$ per Mwh	% Change
Cash from Rate Changes Implemented on Jan 1, 2010	0.0	141.7	141.7	15.09	26.3%
equals					
Cash from Rate Changes Implemented after Jan 1, 2010	0.0	-0.7	-0.7	-0.08	-0.1%
Cash from Rate Changes Implemented before Jan 1, 2010 not in the Average Annual Rate Planned in the Rate Study for 2007-2008	0.0	-11.4	-11.4	-1.22	-2.1%
Cash from Retail Power Sales before Discounts at the Average Annual Rate Planned in the Rate Study for 2007-2008	-539.3	-528.1	11.2	1.19	2.1%
Cash from Wholesale Power Sales, Net	-169.7	-120.0	49.7	5.30	9.2%
Cash from All Other Sources	-56.6	-63.6	-7.0	-0.75	-1.3%
Cash to Power Contracts	276.0	293.4	17.4	1.86	3.2%
Cash to Operations	153.5	214.4	61.0	6.49	11.3%
Cash to Rate Discounts	5.6	7.1	1.5	0.16	0.3%
Cash to Uncollectable Revenue	5.4	6.1	0.7	0.08	0.1%
Cash to State Taxes and Franchise Payments	28.2	33.5	5.3	0.57	1.0%
Cash to Debt Service Coverage	297.1	311.1	14.0	1.49	2.6%

Table 6

Change in Revenue Requirements from 2007-2008 Rate Forecast to Current 2010 Forecast from Decisions
(All Dollar Figures in Millions)

	2007-2008	2010	Gap $	$ per Mwh	% Change
Cash from Rate Changes Implemented on Jan 1, 2010	0.0	-94.2	-94.2	-10.03	-17.5%
equals					
Cash from Rate Changes Implemented after Jan 1, 2010	0.0	0.0	0.0	0.00	0.0%
Cash from Rate Changes Implemented before Jan 1, 2010 not in the Average Annual Rate Planned in the Rate Study for 2007-2008	0.0	0.0	0.0	0.00	0.0%
Cash from Retail Power Sales before Discounts at the Average Annual Rate Planned in the Rate Study for 2007-2008	0.0	0.0	0.0	0.00	0.0%
Cash from Wholesale Power Sales, Net	0.0	0.0	0.0	0.00	0.0%
Cash from All Other Sources	0.0	-6.6	-6.6	-0.70	-1.2%
Cash to Power Contracts	0.0	0.0	0.0	0.00	0.0%
Cash to Operations	0.0	-12.7	-12.7	-1.35	-2.4%
Cash to Rate Discounts	0.0	-1.0	-1.0	-0.10	-0.2%
Cash to Uncollectable Revenue	0.0	-0.8	-0.8	-0.09	-0.2%
Cash to State Taxes and Franchise Payments	0.0	-3.1	-3.1	-0.33	-0.6%
Cash to Debt Service Coverage	0.0	-69.9	-69.9	-7.45	-13.0%

The major components of Table 6 are explained in more detail below.

4.1 Increase in Cash from All Other Sources

The $6.6 million increase in cash from all other sources reflects the same sources of revenue described in section 3.3 excluding the power marketing and power contract revenue described in that section. The largest contributors include renewable energy credits, billable operating and maintenance work, reimbursement for work on cell sites, and revenue from curbing energy losses caused by current diversion and unpermitted house rewires. Additions of $7.0 million from these sources are partially offset by a $0.4 million decrease in investment income. The list of these additional sources of revenue is included in Appendix A.

4.2 Decrease in Cash to Operations

Prior to the decisions taken by City Light management during the current rate-setting process, the amount of new revenue required to cover cash to cash to operations would have increased by $61.0 million, as shown in Appendix B. In the current rate proposal, new revenue required to cover cash to operations totals $48.3 million, which is $12.7 million less than the original amount before management decisions to reduce these expenditures were taken. This $12.7 million is a net number that includes $11.3 million of additional operating expenditures agreed to by management minus $24.0 million in expenditure reductions. The reasons for the increases in cash to operations are described above in section 3.5. The list of these increases as well as a list of the reductions is included in Appendix A.

4.3 Decrease in Cash to Debt Service Coverage

The amount of revenue required from new rates in 2010 for cash to debt service coverage is $69.9 million lower than the amount that would have been required. As described in section 3.9, this reduction results primarily from the proposal to revise the financial policy for debt service coverage from 2.0 to 1.6 and secondarily from the decision to delay new debt issuance from October 2009 to March 2010 and delay interest payments on that debt issue until 2011.

Appendix A

Management Decisions Taken to Reduce the Size of the 2010 Rate Increase

Additional Cash from All Other Outside Sources

Additional Revenue from Renewable Energy Credits (RECs)	500,000
Current Diversion	2,000,000
Pole and Streetlight Damage Claims	200,000
Un-Permitted House Re-wires	56,000
No Longer Allow Flat Rate Billings	50,000
Estimated Bill Charge	50,000
Sale of Surplus Properties	700,700
Monetize excess transmission cpacity	2,000,000
Revenue Offset - Reimbursable Cell Site Work	1,470,602
Total	7,027,302

Additions to Cash to Operations (BIPS)

Streetlight Group Re-Lamping Program	923,080
Asset Management and Work Management Program	2,174,753
Reimbursable Cell Site and Pole Attachment Construction	1,470,602
Self-Build Power Marketing, Risk Management and Settlements	640,577
LED Streelight Conversion Program	26,341
Energy Efficiency Community Block Grant - add to Federal Stimulus	1,050,000
CSED Feeder Maintainance	1,500,000
Security Services	276,450
Crane Safety Program	622,101
Fleet Management Support Staff	181,650
NERC Required Transmission and Distribution Planning	132,290
Baseline Adjustments	499,402
Technical Adjustments - Liability Claims	1,762,647
Total	11,259,893

Cuts in Cash to Operations

Customer Services BU	1,455,054
Energy Delivery BU	8,195,262
Power Supply BU	5,805,210
Conservation/Env Affrs BU	799,103
Financial Services BU	1,576,909
Human Resources BU	620,858
Superintendent's BU	324,776
Benefits Related to Eliminated/Deferred Positions	1,757,803
Cap 2010 COLA at 2.0%	1,612,354
Furloughs	1,803,200
Total	23,950,528

Net Changes in Cash to Operations (12,690,635)

Appendix B

Components of Increase in Cash to Operations since 2007-2008 Rate Case
(All Dollar Figures in Millions)

	2007-2008 Rate Case	2010	Increase	Components
Total Cash to Operations	153.4	214.4	61.0	
Production	24.0	34.5	10.5	
Inflation				2.5
Wage settlements > inflation				0.6
14 construction mgmt. staff				1.8
Integrated Resource Plan				0.3
Boundary relicensing				1.2
Boundary sluice gate maint.				0.6
Diablo dredging/cleaning				1.8
Skagit/Boundary-vessel maint.				0.4
Skagit water system improvemt				0.2
True-up to actual expense				1.1
Total				10.5
Transmission	5.8	9.1	3.3	
Inflation				0.6
Wage settlements > inflation				0.2
True-up to actual expense				2.5
Total				3.3
Distribution	41.5	64.3	22.8	
Inflation				4.4
Wage settlements > inflation				1.4
63 skilled/lineworker positions				4.6
Apprenticeship program				0.8
Asset Management				2.5
Pole testing/treatment				1.1
Contruction and electrical mat'ls				1.6
Field system & substation O&M				0.5
Fire resistent clothing				0.3
NERC/regulatory compliance				2.2
Overtime to repair outages, etc.				-1.0
Tree trimming to avoid outages				4.3
True-up to actual expense				0.1
Total				22.8
Conservation	2.4	8.7	6.3	
Inflation				0.3
Wage settlements > inflation				0.1
5-year plan				4.2
Energy efficiency fund				0.2
True-up to actual expense				1.5
Total				6.3
Customer Accounting	26.3	31.6	5.3	
Inflation				2.8
Wage settlements > inflation				0.3
Call Center (paid to SPU)				1.7
True-up to actual expense				0.5
Total				5.3
Administration	53.4	66.2	12.8	
Inflation				5.7
Wage settlements > inflation				1.0
Climate studies program				0.9
City cost allocations				1.6
Duwamish cleanup				2.0
Greenhouse gas offsets				0.9
Low-income assistance				0.2
Rent from City				2.6
Risk management audit				0.2
Safety compliance				0.4
True-up to actual expense				-2.7
Total				12.8
Net true-up to actual cash flow				3.0