Revenue Requirements

RAC Meeting 2: September 22, 2009

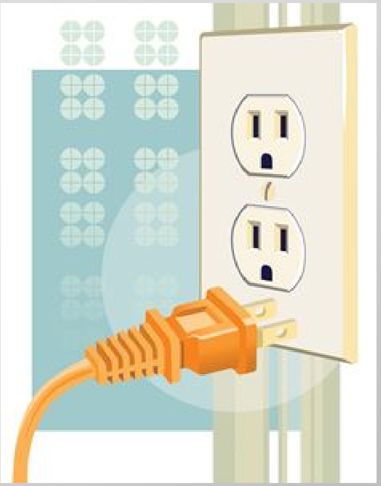
Seattle City Light

City Light Vision

To set the standard and deliver the best <u>customer service</u> experience of any utility in the nation

City Light's
Long-Term Strategic Priorities

- **Recruit, support and promote high performance team**
  - Aging Workforce
- **Protect and enhance the environment**
  - Additional focus on GHG
- **Strengthen and improve energy delivery infrastructure**
  - Asset Management; Outage Management; Smart Grid
- **Develop an efficient power resource portfolio**
  - Renewables and Energy Conservation
- **Ensure financial resilience**
  - Risk Management; Financial planning for this rate adjustment process



Three Steps to Rate Making

Step 1: Revenue Requirements Analysis

The analysis of the revenues required to meet City Light operating and maintenance expenses, and to finance a portion of the City Light Capital Improvement Program consistent with financial policies.

Achieving a Careful Balance

Providing for the financial health of the utility

Rates that are responsive to customer needs

Current Financial Policies

- Debt service coverage of 2.0 (allows $ for capital)
- 95% confidence of at least $1 of cash from operations towards capital
- 95% confidence of sufficient supply to serve load
- Debt to capitalization target of 60% end of 2010
- Cash balances
  - $30M monthly
  - $25M Contingency Reserve

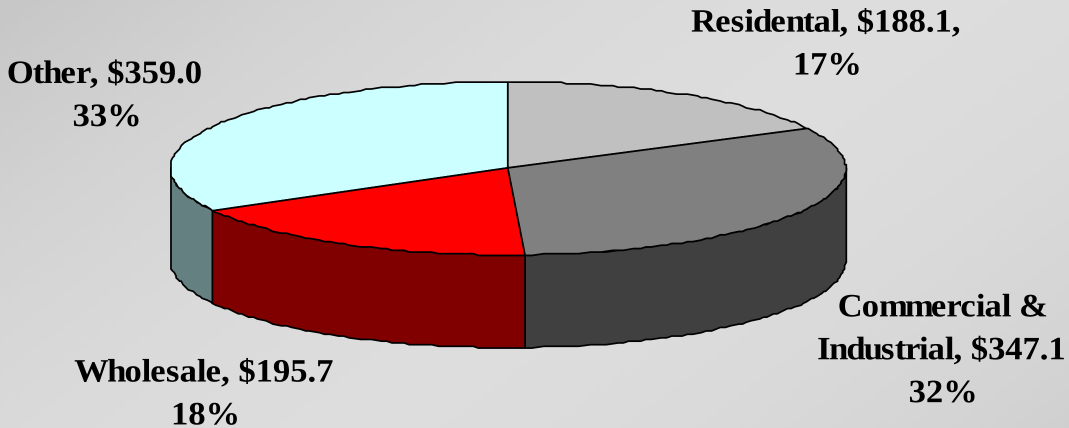
City Council Resolution 30761: May 2005

Effectiveness of Current Policies

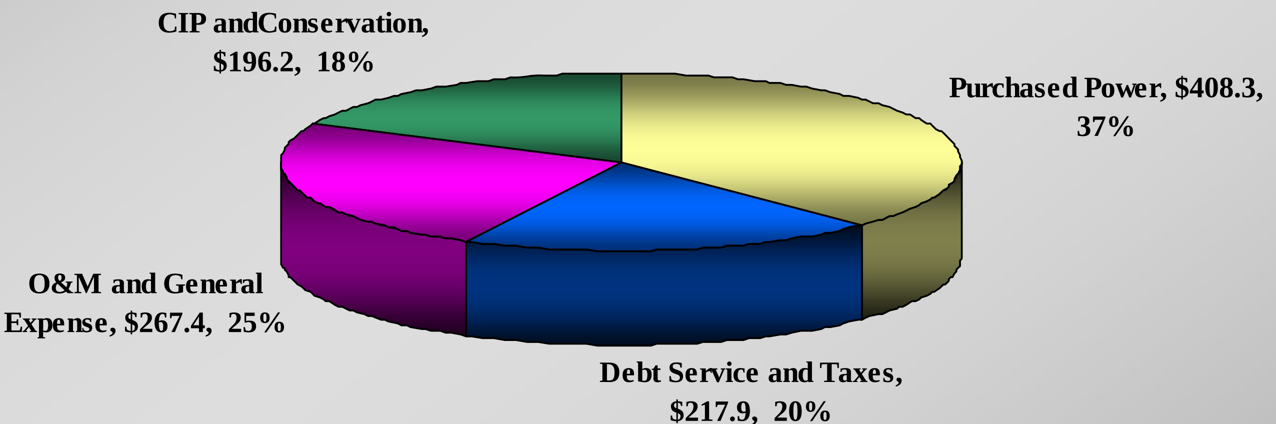
- The financial policies currently in place have been the foundation for the utilities financial recovery from the energy crisis earlier in the decade.
- They paved the way to reducing debt and increasing the bond ratings – reducing risk and cost.
- As demonstrated by the current financial crisis, the current policies do not address all the major risks – Wholesale Power Revenue volatility is still a major risk.

SCL Budget - 2010 Endorsed

Sources of Revenue, Total = $1089.9M



Uses of Revenue (Budget), Total = $1089.9M



Seattle City Light

Financial Forecast vs Budget

- Forecast does not equal Budget. Why?
  - Purchased power higher in budget
  - Conservation deferred in forecast
  - A&G capitalized assumed in forecast
  - CIP planned vs allowed, carryovers to next year
  - Budget covers expected debt service (not twice)
  - Pattern of cash outlays different

Rates are determined by the financial forecast

Financial Forecast (handout)

Operating cash in minus operating cash out

=

Cash available for debt service

-

Cash to City taxes & debt service

=

Cash from Operations

+

Cash from contributions and bond proceeds

=

Cash to capital investment and deferred O&M

Cash in = Cash out on a planning basis

Differences: 2007/2008 Plan vs 2010 Plan (handout)

Cash from current retail rates and expected load

+

Cash from wholesale power sales (net)

+

Cash from other sources

-

Cash to power contracts

-

Cash to operations

-

Cash required for debt service coverage

=

GAP

Cash in and cash out have changed since rates were last set

+ $61M Operating Expenses (handout)

Production	**$11**
Transmission	**3**
Distribution	**23**
Conservation	**6**
Customer Accounting	**5**
Administration	**13**
TOTAL	**$61**

These are the most "controllable" of SCL's expenses

How can the gap be closed?

- Change financial policies
- Reduce expenses
- Increase rate revenues
- Increase cash from other sources

Decisions can be made around these options