



2006 Rate Review

Information for Commercial Customers

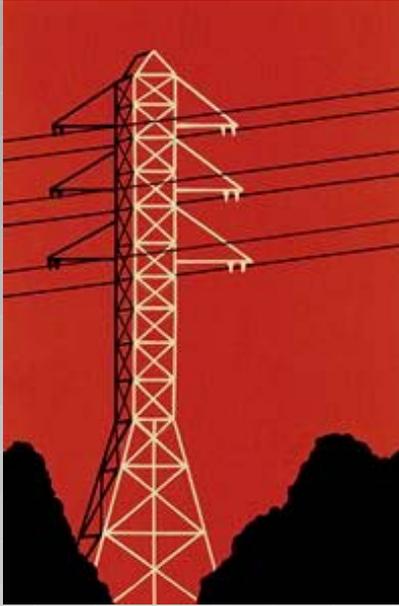
Mark V. Dombroski

Finance Director



Seattle City Light

Seattle City Light Quick Facts



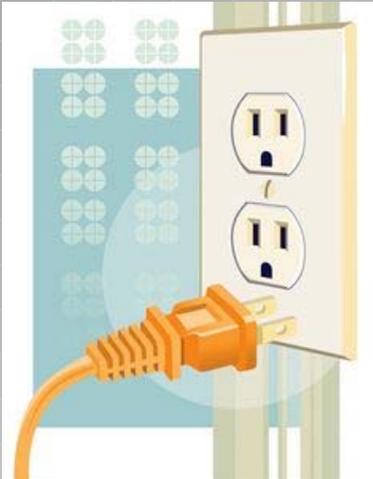
- ◆ **City Light is a 100-year old municipally-owned electric utility**
- ◆ **City Light serves customers by producing, transmitting and distributing power**
- ◆ **The Superintendent is appointed by the Mayor and confirmed by the Council**
- ◆ **The Mayor may propose changes to rates and policies to the Council**
- ◆ **The Council considers the proposed changes and must pass an ordinance to change rates**

Seattle City Light Quick Facts

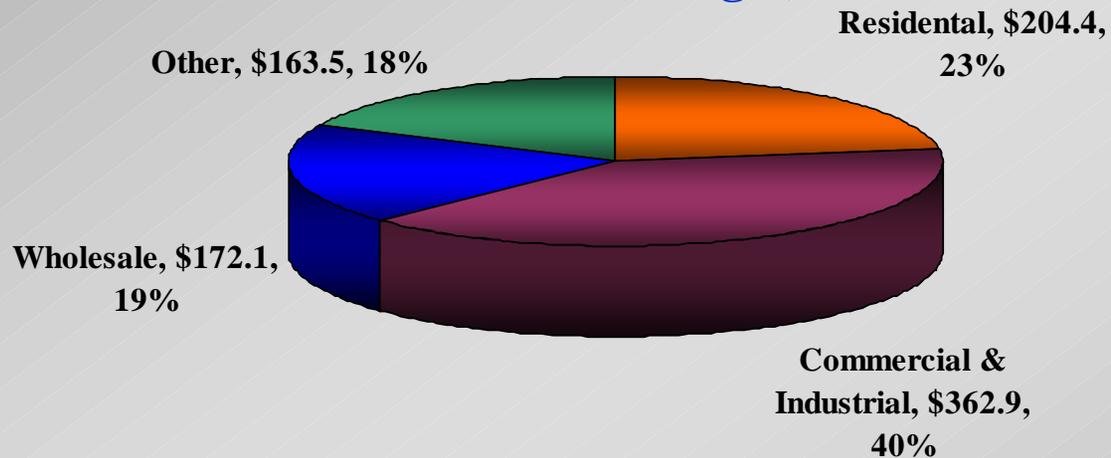
- ◆ Service territory is 131.3 square miles
- ◆ 333,560 residential and 36,939 commercial customers served in 6 cities and unincorporated King County
- ◆ Owns and operates 7 hydroelectric plants with 1,900 MW of capacity
- ◆ Maintains 650 miles of high-voltage transmission lines and 3,130 miles of distribution lines
- ◆ Operates 14 principal substations
- ◆ Approximately 1,600 employees



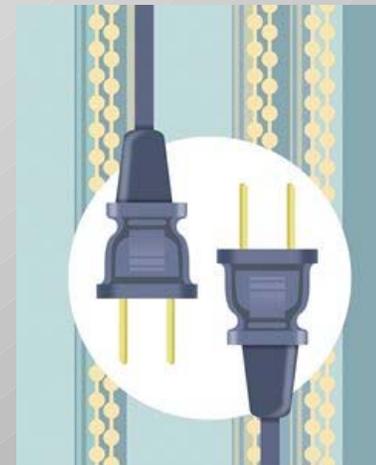
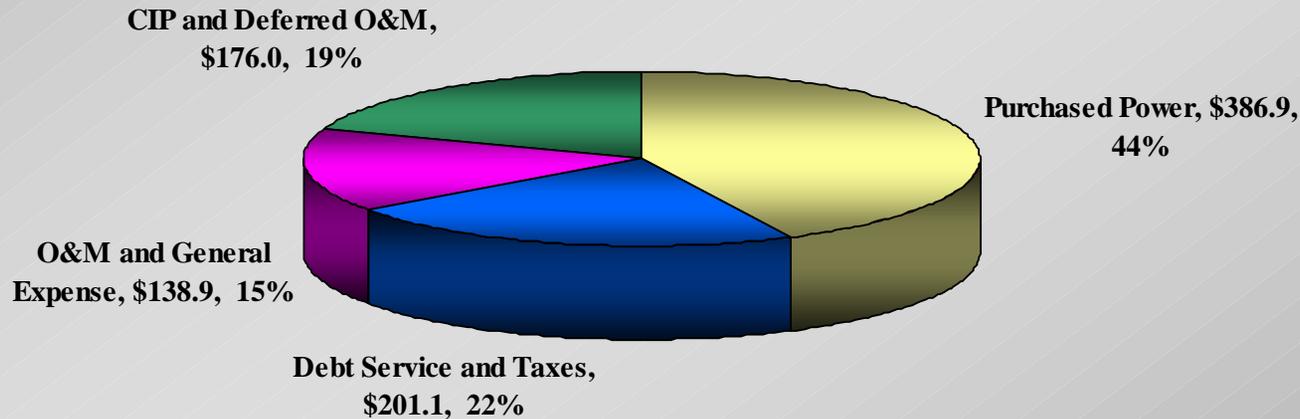
Seattle City Light - 2006 Projections



Sources of Revenue (Budget)



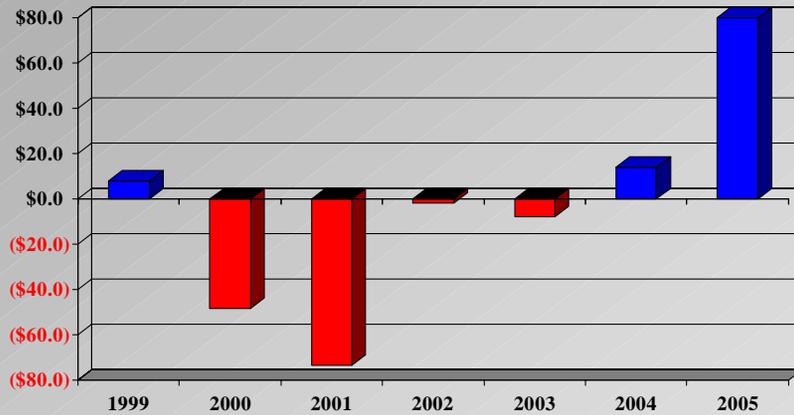
Uses of Revenue (Budget)



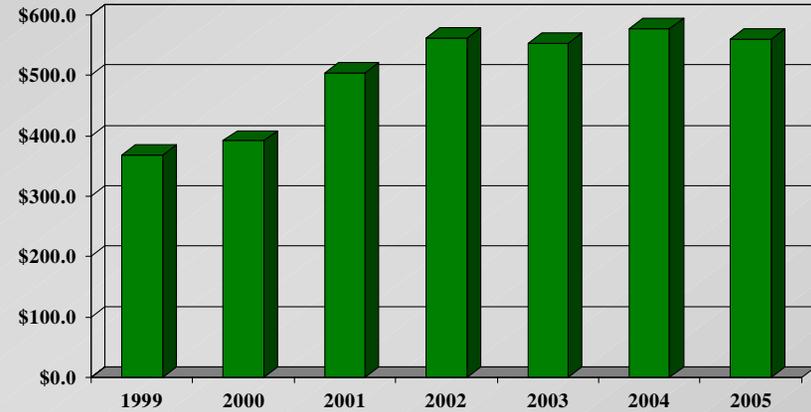
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Seattle City Light - Financial Snapshot

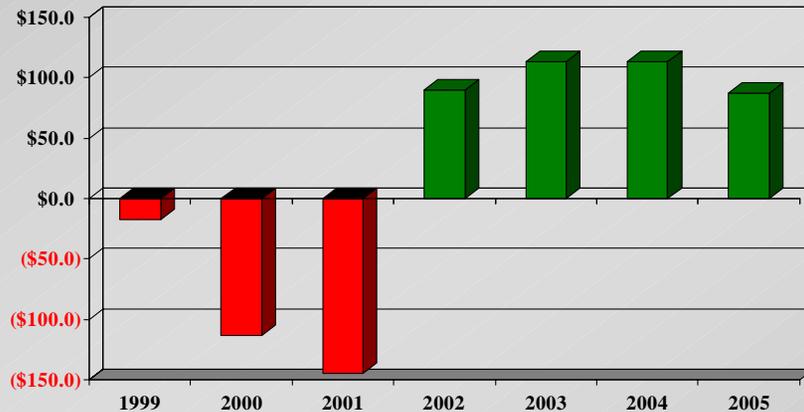
Net Income



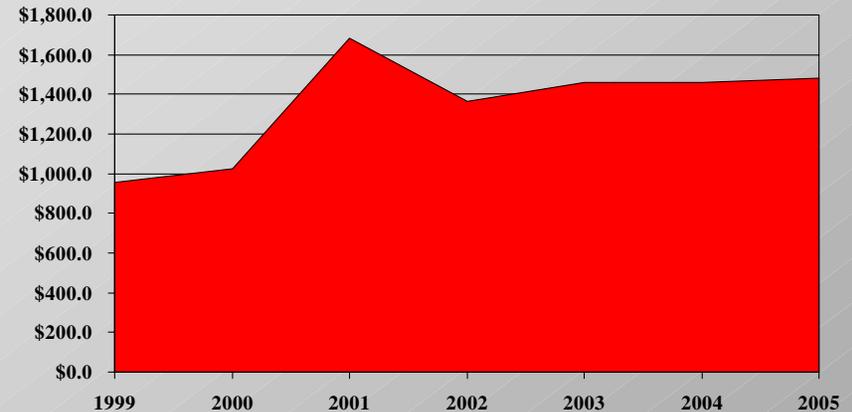
Retail Revenue



Net Wholesale Revenue

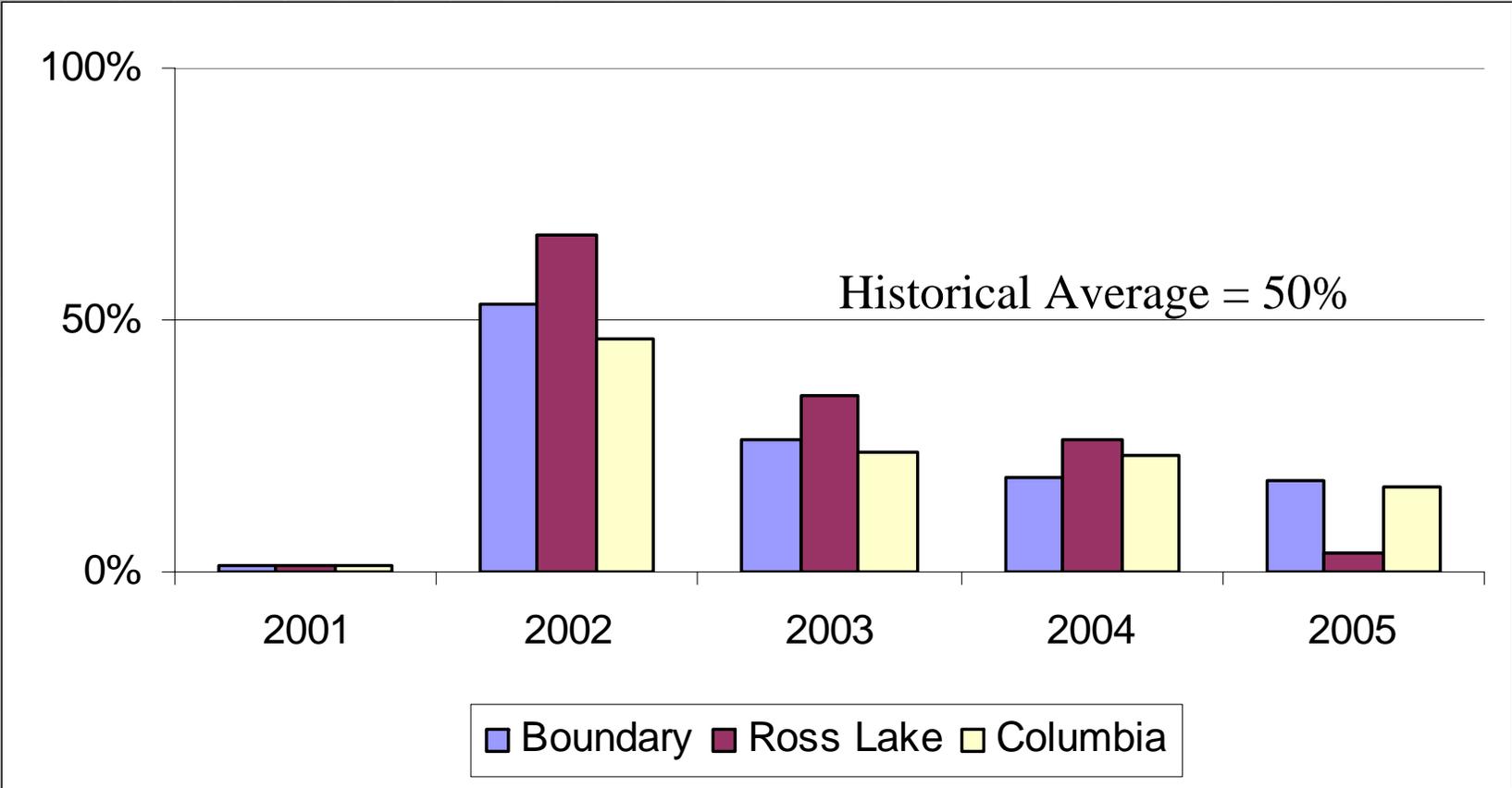


Long-Term Debt



Seattle City Light

Seattle City Light-Recent Stream Flows



Historical Period: Boundary 1913-2005, Ross Lake 1910-2005 and Columbia at the Dallas 1928-2005

Seattle City Light - Financial Positions

	Revenue Requirements		% Change
	2000	2005	
Net Power	\$212,607,771	\$141,430,718	-33.5%
Other O&M (Net of Misc Revenue)	118,640,480	161,982,502	36.5%
Taxes	42,860,055	60,625,266	41.4%
Debt Service	90,167,791	144,269,052	60.0%
Net Revenue for CIP	-63,184,745	59,658,273	194.4%
Interest Income & Other	-9,513,067	-5,417,493	-43.1%
Total Revenue Requirement	\$391,578,285	\$562,548,318	43.7%
Sales (MWh)	9,460,493	9,161,465	-3.2%
Average Rate (\$/MWh)	\$41.39	\$61.40	48.4%
Total Long-term Debt	\$998,192,500	\$1,384,755,000	38.7%
Debt to Capitalization	75%	79%	5.3%
Inflation Index (1982-84 = 100)	174.600	193.076	10.6%

Seattle City Light - Financial Policies

◆ 1999 - Pre-Energy Crisis Rate Setting Policies

- Rates should be set to ensure that, with a high degree of confidence, the Department will make a positive cash contribution to its capital improvement program in each year
- Rates should be set for 1.8 debt service coverage on a planning basis for 1st lien-debt only
- Rates should normally be set to achieve positive net income on a planning basis

Resolution 28004, 1989

◆ 2006 Post-Energy Crisis Rate Setting Policies

- Rates must be set to provide no less than 95% confidence of positive net revenue to fund capital requirements in each year
- AND 2.0 coverage on 1st and 2nd lien debt
- AND target a minimum \$30M month-end operating cash balance
- AND maintain a \$25M contingency reserve account
- AND achieve a debt-to-capitalization of 60% by year-end 2010

Resolution 30761, 2005

Seattle City Light - Financial Policies

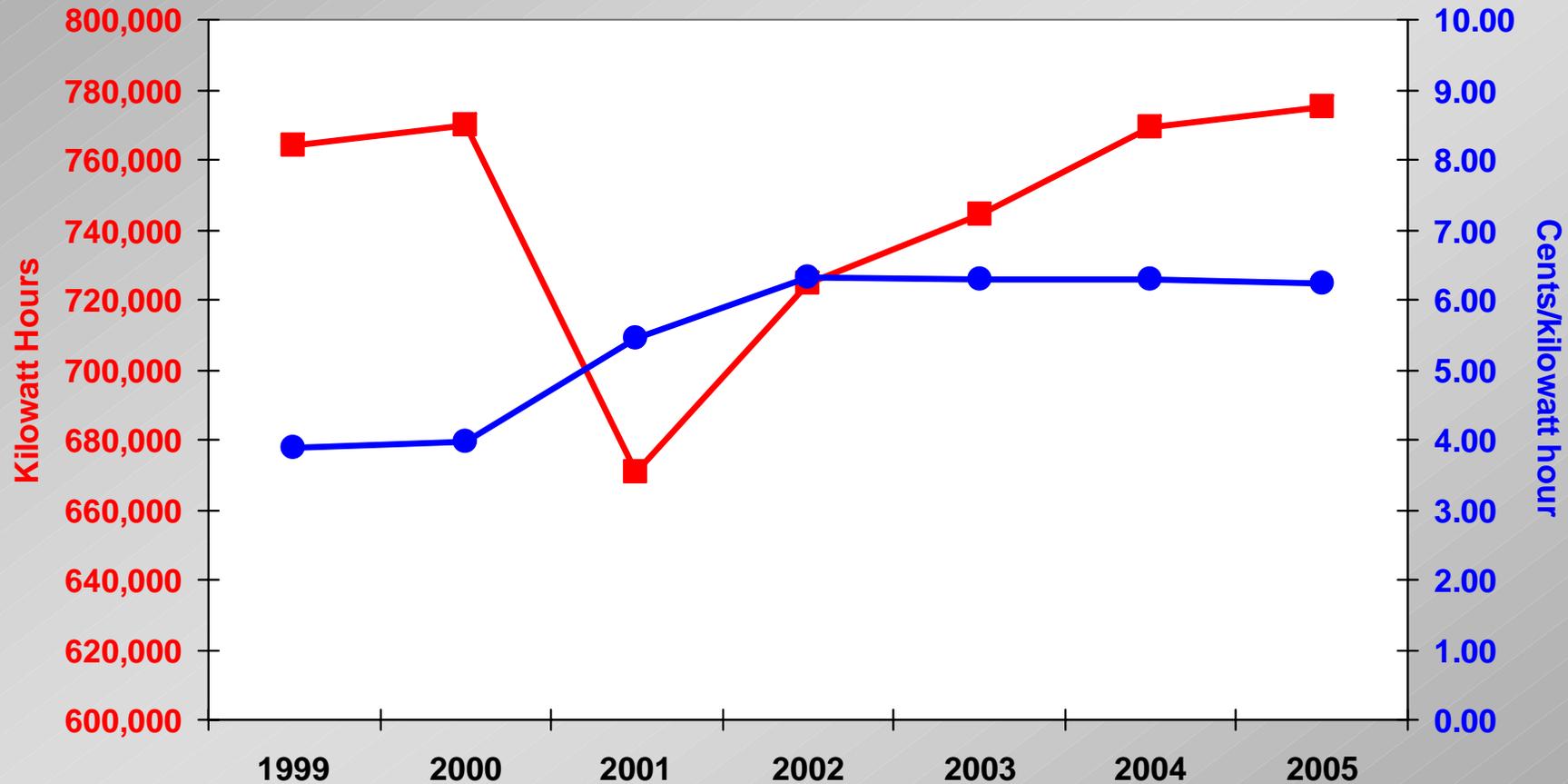
- ◆ **Debt-capitalization target of 60% to be achieved by end of 2010**
 - **Actual ratio as of December 31, 2000: 75%**
 - **Actual ratio as of December 31, 2004: 84%**
 - **Actual ratio for December 31, 2005: 79%**
 - **Current forecast for December 31, 2010: 60%**
- ◆ **Policies to be reviewed before debt-capitalization ratio reaches 70%**
- ◆ **Asset management program to be established**



Seattle City Light - Rate Trends

Seattle Average Medium General Service Rates

Includes both network and non-network customers

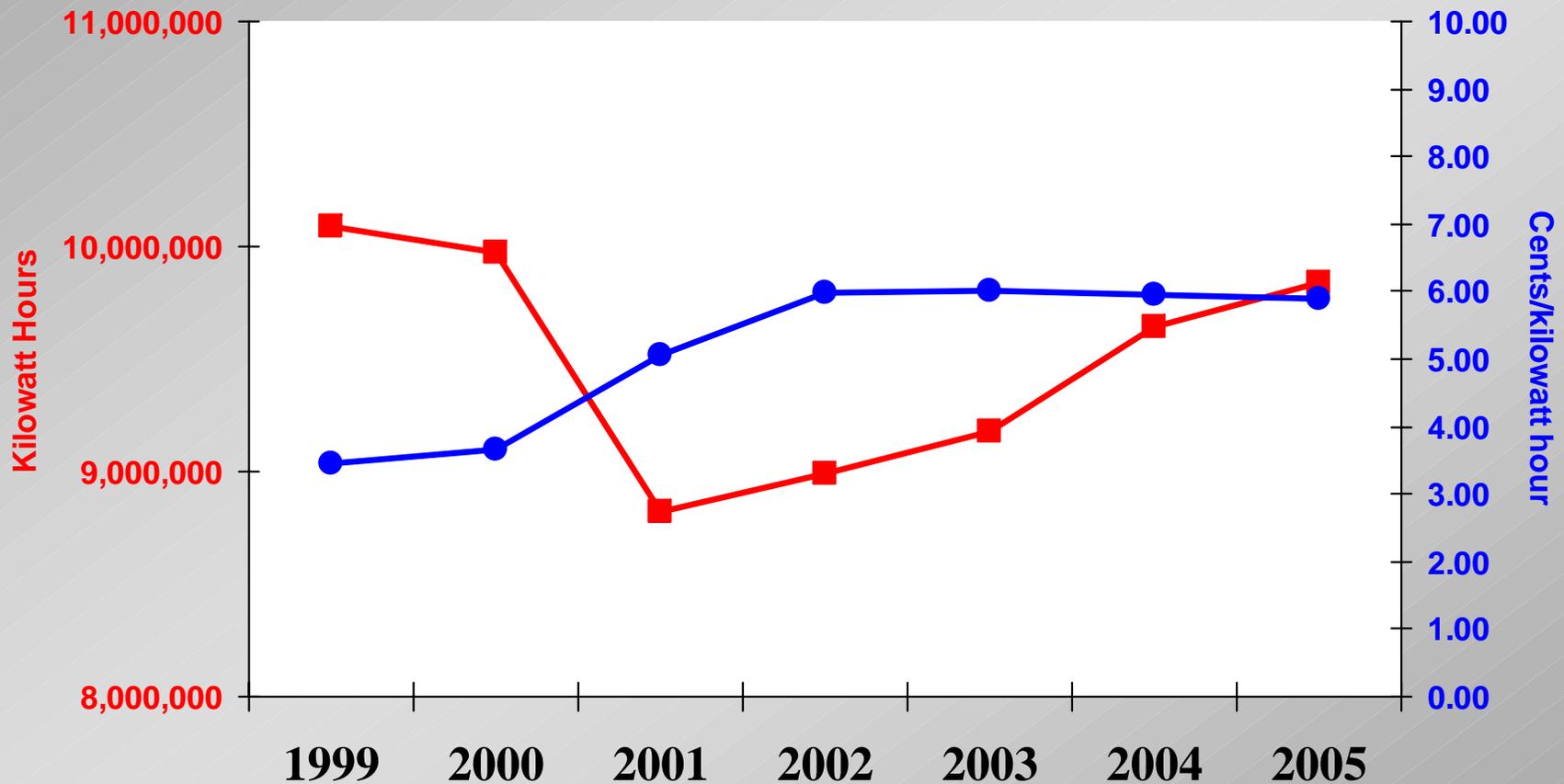


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Seattle City Light - Rate Trends

Seattle Average Large General Service Rates

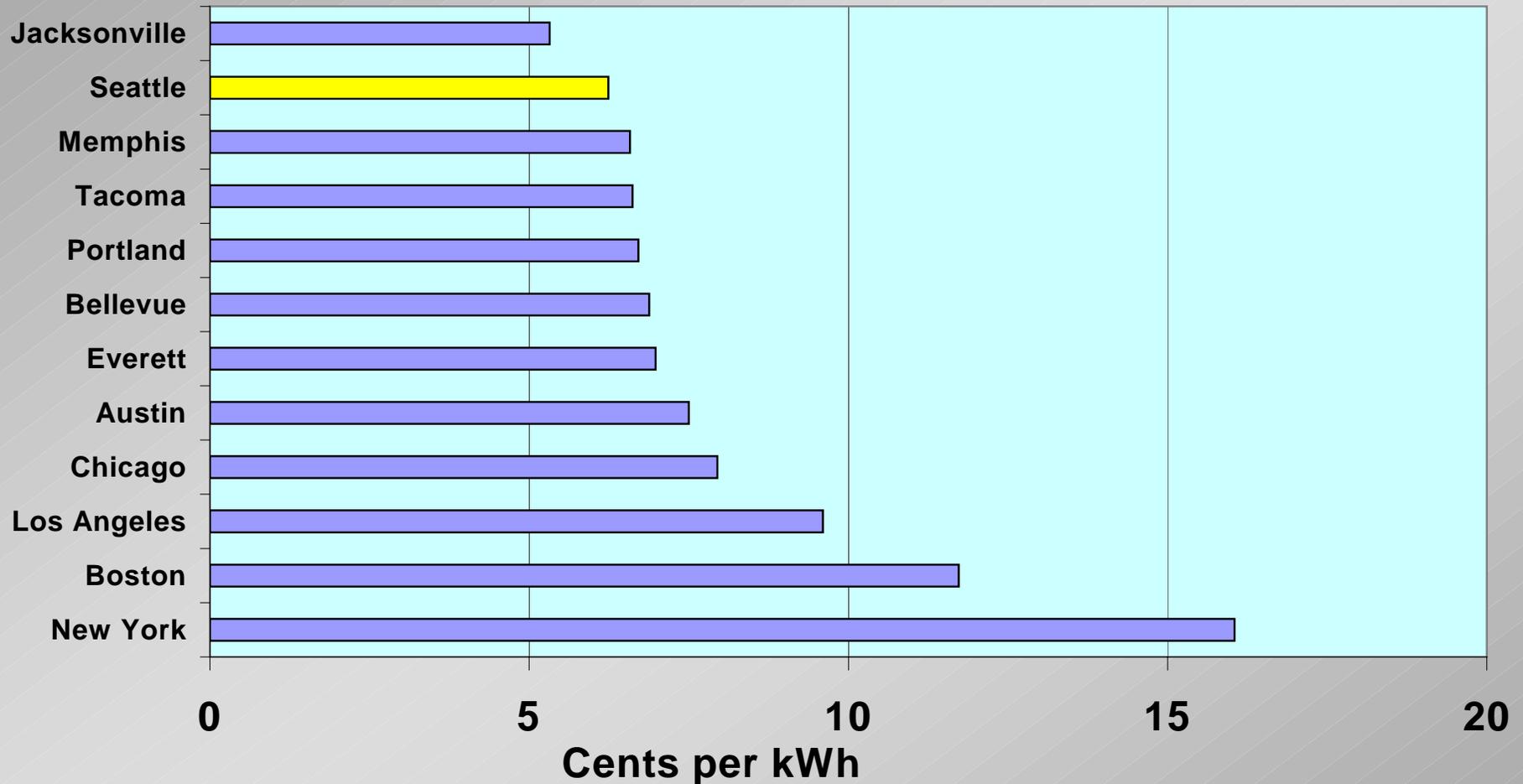
Includes both network and non-network customers



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Seattle City Light - Rate Trends

Comparison of 2004 Average Commercial Rates per kWh by City



Source: Edison Electric Institute Typical Bills & Average Rates Report - Winter 2004 and City Light Survey for Pacific Northwest



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Seattle City Light Rate Review Process

- ◆ **Setting electrical rates is an art that requires forecasting the future, balancing competing interests, and meeting financial goals.**
- ◆ **The process of setting rates involves both economic analyses as well as public policy decision making.**



Seattle City Light Rate Making Principles

◆ Electric rates should be:

- ◆ **sufficient** - they should promote financial stability
- ◆ **equitable** - they should reflect costs of service
- ◆ **efficient** - they should provide incentives for conservation
- ◆ **stable** - changes should be gradual over time

◆ Citizen participation in rate decision process

Resolution Number 30685: Adopting long-term rate setting objectives and electric rate policies for the City Light Department, adopted June 21, 2004.



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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.

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Three Steps to Rate Making



Step 2: Cost of Service and Cost Allocation Report

The analysis of distributing the revenue required by City Light to customer classes so that the revenues recovered from each customer class are based on the cost to serve it.

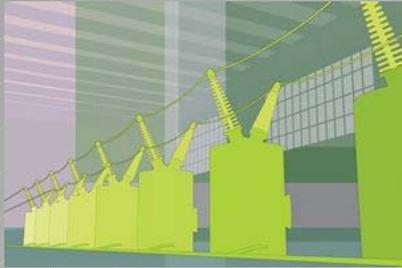
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Three Steps to Rate Making



Step 3: Rate Design Report

The process of shaping rates, charges and credits for each customer class so that the customers in each class not only contribute their portion of City Light's revenue requirements but also receive appropriate price signals consistent with City policies, e.g., higher prices for higher consumption and during high-cost periods to encourage conservation.



Seattle City Light

2006 Rate Review Issues

The 11 issues for the 2006 rate review are primarily matters of allocation. Many of the issues have competing interests and appear in more than one group.

Equity

Network rates
Suburban rates
Streetlight rates
New large loads
Power factor charge
Interruptible rates
Distribution capacity reservation charges
Pole attachment rates
Low-income rates

Efficiency

Seasonal rates
Low-income rates

Stability

Network rates
Streetlight rates

Revenue Sufficiency

New large loads
Interruptible rates
Variable rate schedules

