Revenue Requirement Analysis:
Gap Analysis and Mayor’s Proposal

Meeting 3: September 29, 2009

Seattle City Light

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.**
- **Electric utility rates should be sufficient to meet the City Light Department's revenue requirements, while charging the lowest possible cost to the ratepayer over the long run.**

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

Financial Forecast

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

2010 Financial Gap

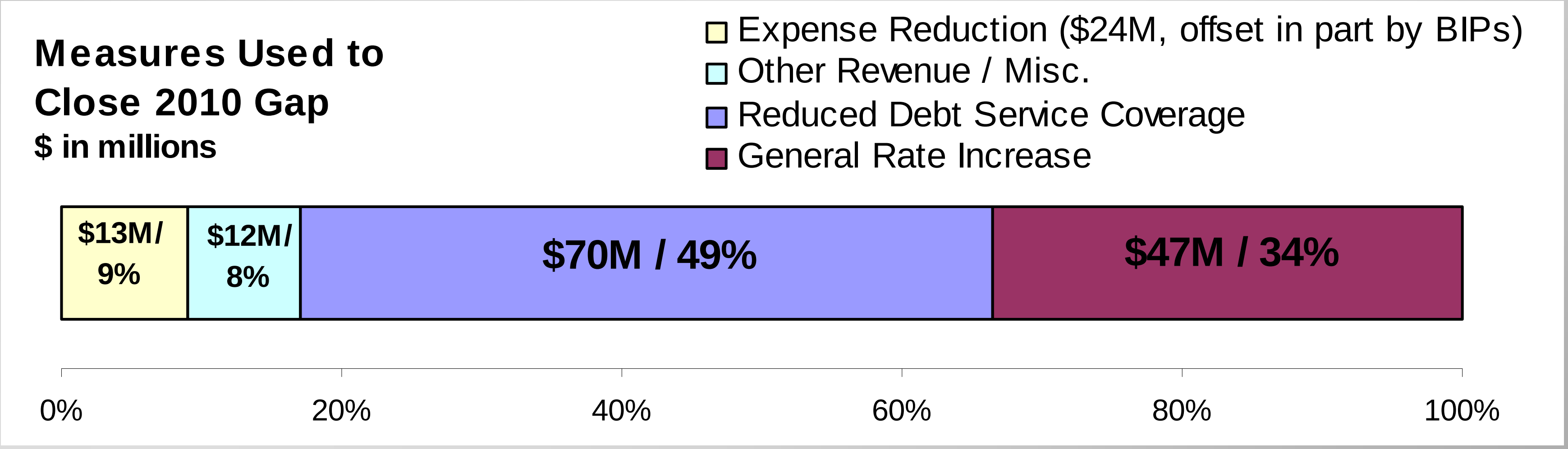
Funds provided by current rates
***Less*: 2010 revenue requirement prior to measures to address gap**
= $142M gap

Caused by:

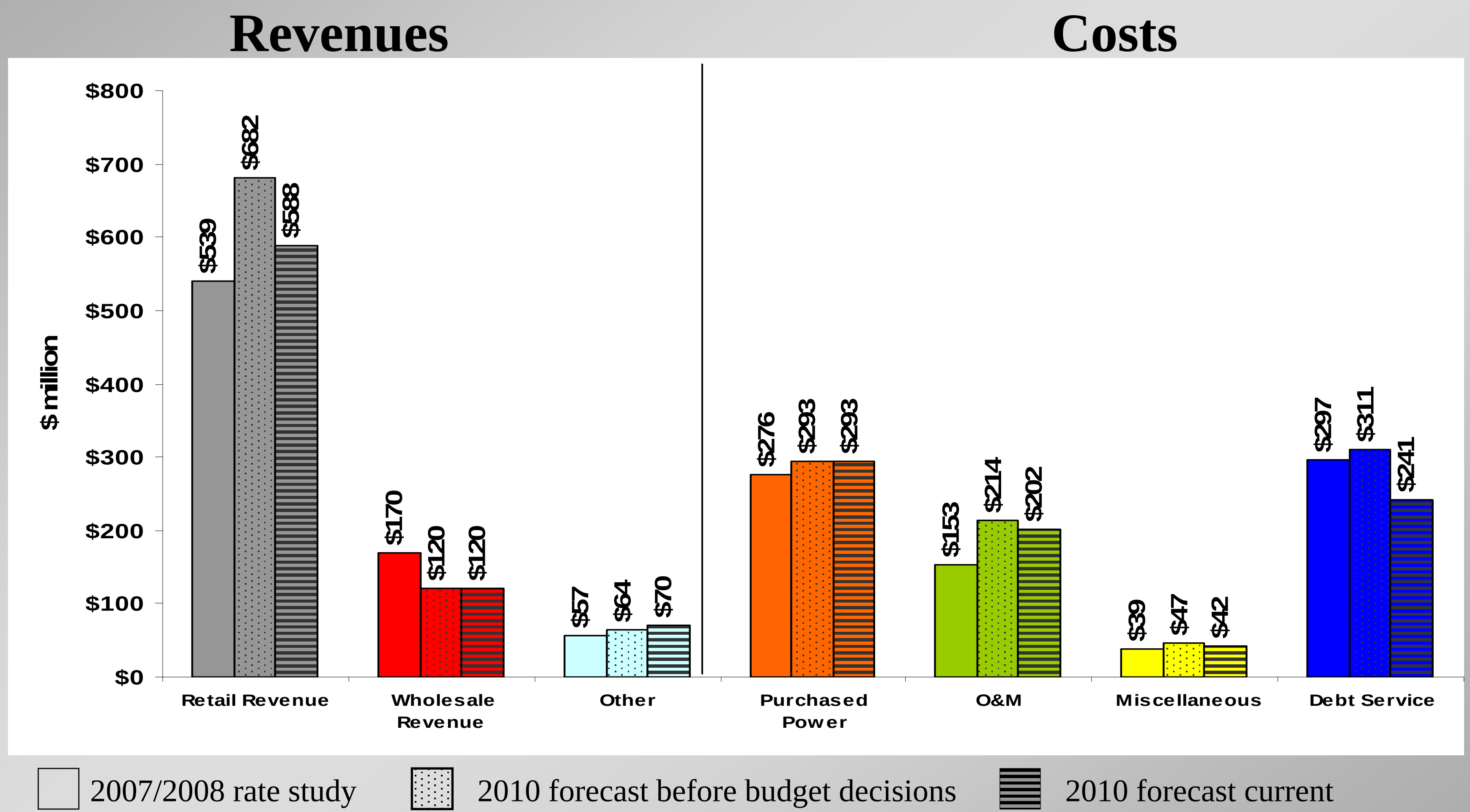
- **Decline in wholesale revenues: $50M**
- **Changes in utility costs: $92M**

Mayor's Rate Proposal

- **Program changes**
  - **Operating and capital budget reductions**
  - **Incremental revenues**
- **Financial Policy changes**
  - **Reduce Debt Service Coverage from 2.0 to 1.6**
  - **Power Revenue Adjustment Mechanism (PRAM).**
- **Rate increase of approximately 8.8% effective 1/1/10**

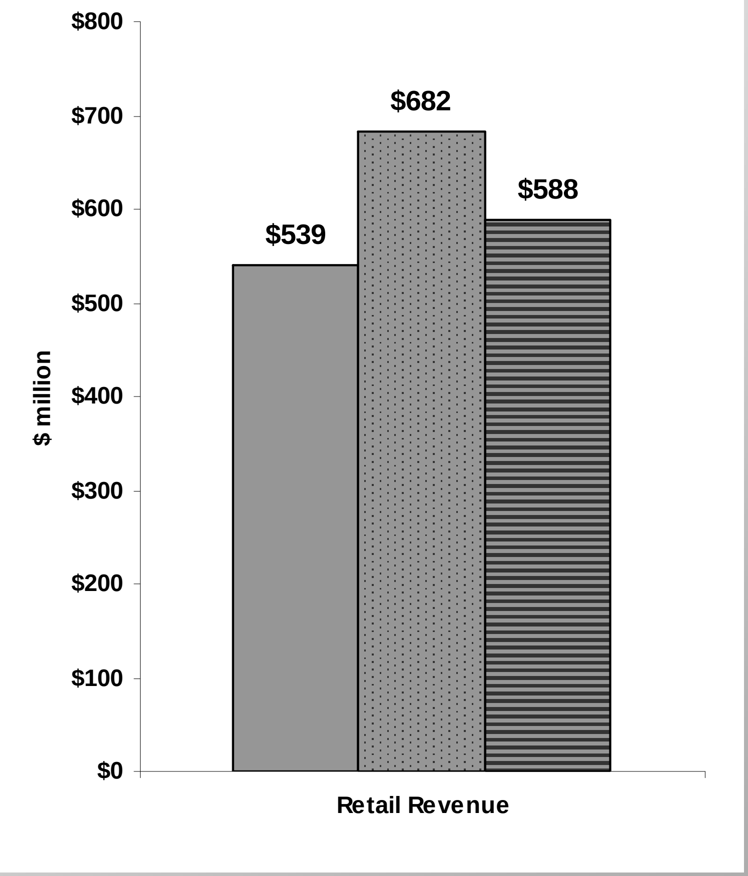


What has Changed Since Rates Were Last Set: Components of the 'Gap'



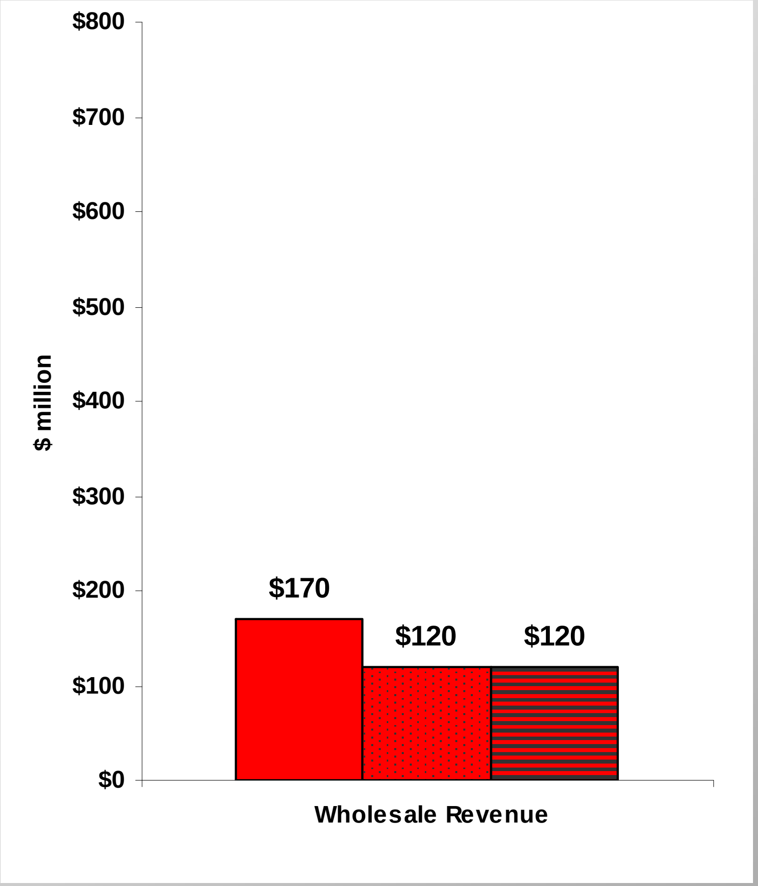
Retail Revenue

- Retail Revenue drivers include: customer demand, which fluctuates due to economic conditions and temperature (heating and cooling demand), and assumed rates.
- Retail Revenue for 2010 is higher than in 2007/8 due to assumed higher rates.
  - Customer demand is expected to be lower in 2010 than it was in 2007/8.
- The current forecast shows a $94 M reduction from the Forecast before Decisions.
  - The reduction is due to a combination of lower Debt Service Coverage target (from 2.0 to 1.6), and budget adjustments.



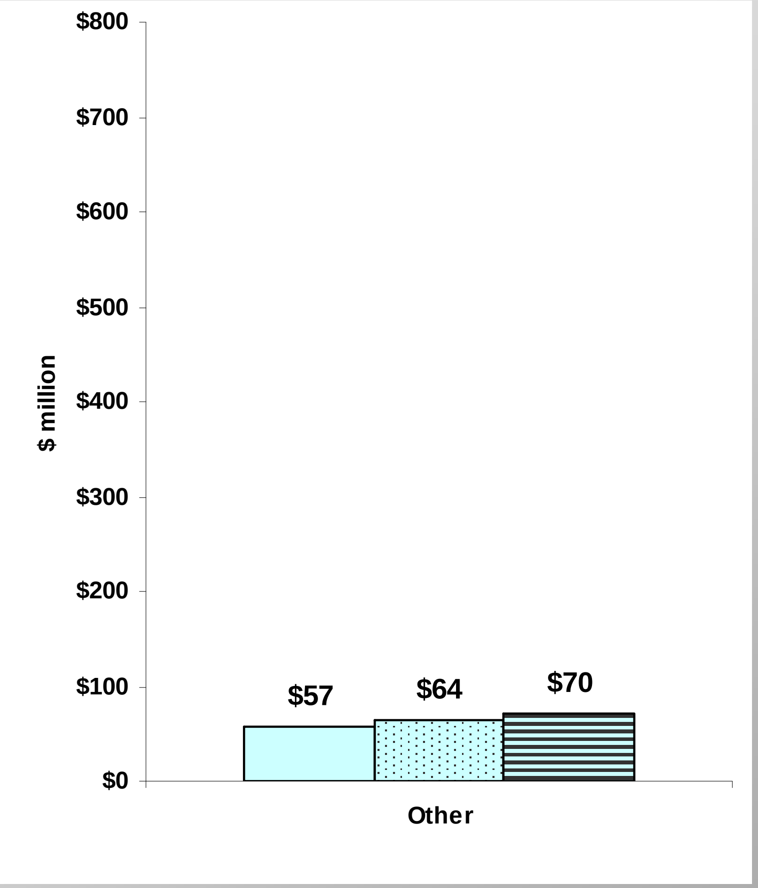
Wholesale Revenue

- **Current Wholesale Revenue expectations are reduced by $50 M from 2007/8 due to:**
  - **Lower market prices-- assumed wholesale sales averaged $56/MWh for 2007/8, and are only $39 /MWh for 2010.**
  - **Reduced hydro generation expectations due to forecasting methodology improvements and changes in federal hydro regulation guidelines.**
- **The Wholesale Revenue assumption for 2010 is unchanged between the Forecast before Decisions and the current forecast.**



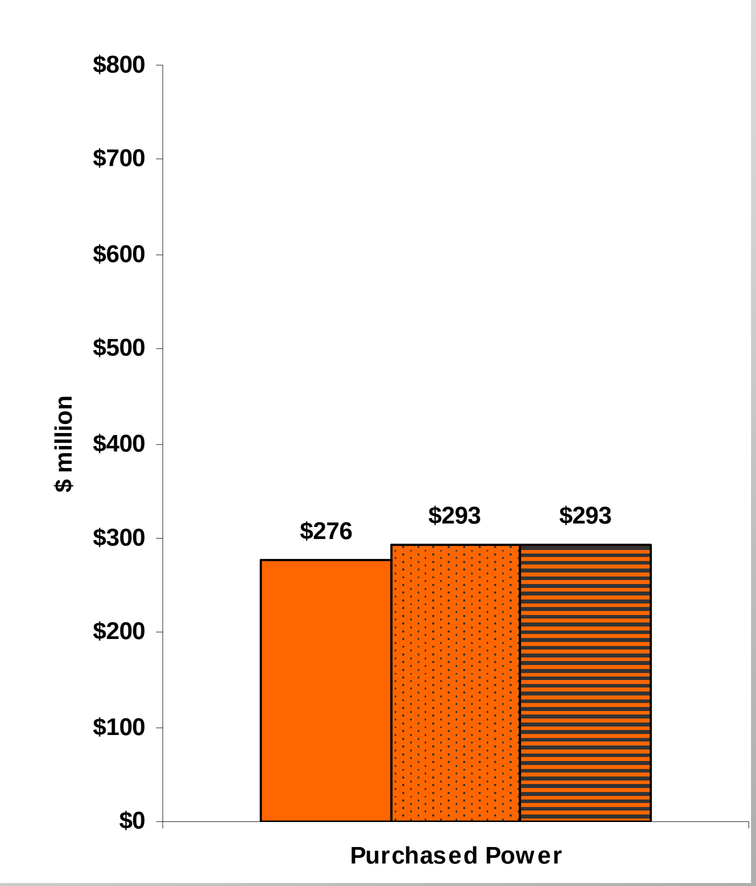
Other Revenue

- Other Revenue is projected to be $13 M higher in 2010 over 2007/8.
- Other Revenue sources include: long-term power sales, sales of transmission and power-related services, investment income, and miscellaneous fees and charges.
- Major sources of increased revenue in 2010 are:
  - $6 M BPA Residential Exchange Credit
  - $7 M of additional revenue that includes sales of renewable energy credits, curbing losses caused by electric current diversion (theft), sale of excess transmission capacity, and reimbursement for work on cell sites.
  - Revenue increases are offset by a $1.5 M drop in investment income, due to lower cash balances and interest rates.



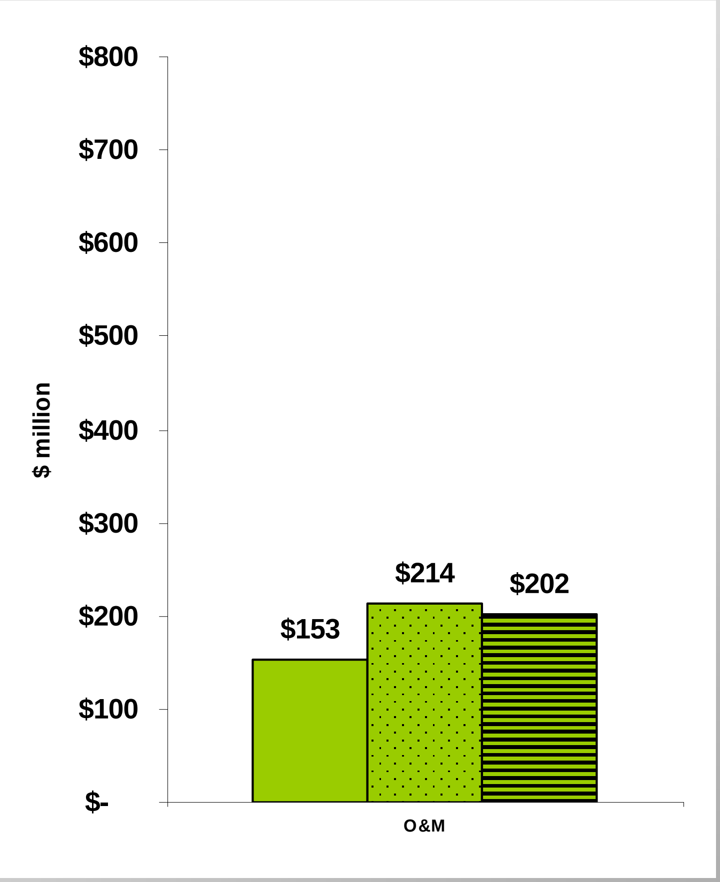
Purchased Power

- Power contract purchases are projected to be $17 M higher in 2010 over 2007/8.
- The increase is primarily due to:
  - Priest Rapids power contract- a new long term contract took effect this year, the new terms call for a higher price.
  - Wheeling charges (rented power transmission) have gone up.
  - Large increases in FERC administrative fees ($3.8 M) and land rent charges.
- These increases are partially offset by reduced expenditures for Lucky Peak and lower BPA purchases.



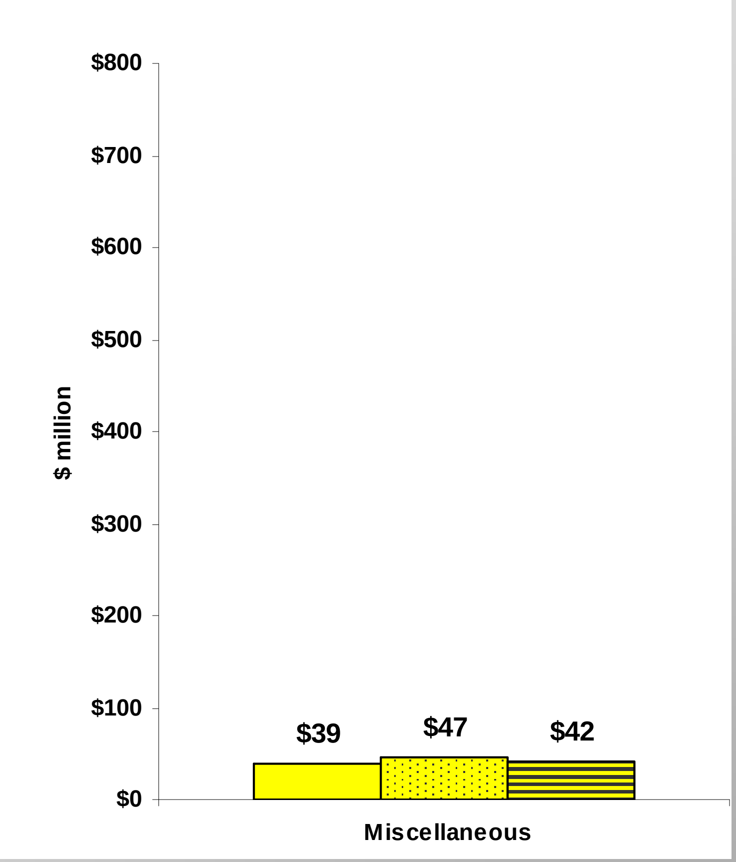
Operations

- O&M increased $61 M from 2007/08 to the 2010 endorsed budget.
  - Full breakdown in Appendix B.
- Budget decisions increased 2010 O&M by an additional $11 M and cut $24 M from the endorsed budget, for a net reduction of $13 M.
  - Resulting O&M gap reduced from $61 M to $48 M.
  - Full breakdown of budget decisions in Appendix A.



Miscellaneous Costs

- Miscellaneous costs are projected to be $3 M higher in 2010 over 2007/8.
- Category includes:
  - Rate Discounts
  - Uncollectable Revenue
  - State Taxes and Franchise Payments
- Drivers of increase:
  - Low-income customers pay discounted rates; as standard rates increase, the discount also increases.
  - State taxes charged as a percentage of retail revenues, they also increase with higher rates.
  - Increases offset by lower uncollectable revenue, helped by improvements to collection processes.



Debt Service Coverage

- This is the cash needed to meet the Debt Service Coverage target.
- With 2.0 coverage for the Forecast before Decisions, the cash needed for coverage in 2010 increased by $14 M, to cover bonds sold in 2008 and 2010.
- Proposed Financial Policy changes reduce Debt Service Coverage target for 2010 from 2.0 to 1.6.
  - Reduced coverage target, combined with a delay of debt service payments on the 2010 bond issue, reduced cash for Debt Service Coverage by $70 M.