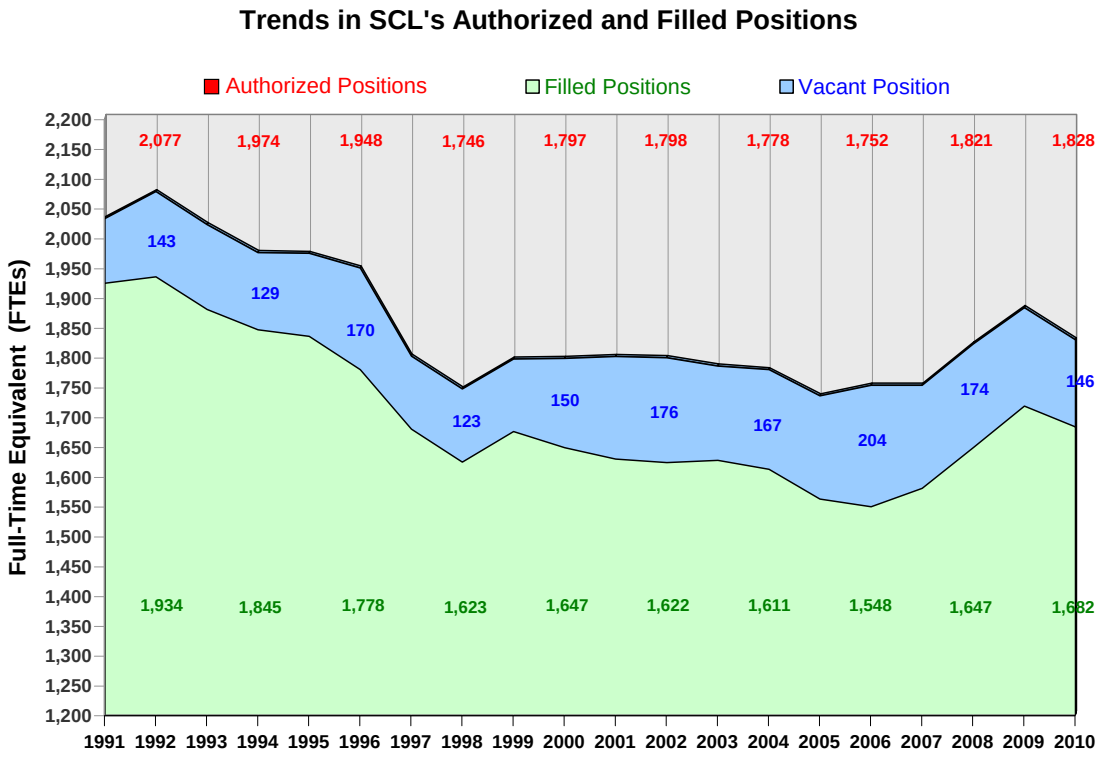
Seattle City Light
Rates Advisory Committee
Responses to Questions from the October 13, 2009 RAC meeting

Question 1
Provide the Operating and Capital Budgets from 1998 to 2009.

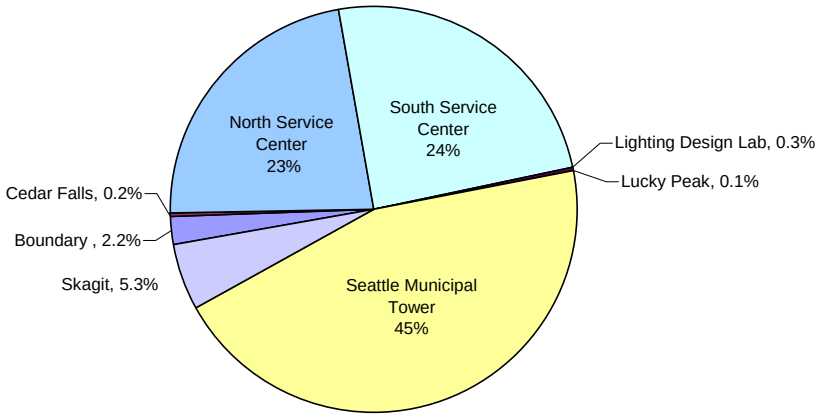
Please see attached excel spreadsheet.

Question 2
Provide the number of employees over that same period, vacant and filled. Also please list their work location.

Here are two charts showing number of employees, and current location.



We do not have historical records for employee work location, but here is the current distribution:



Question 3
If the 2000 rates were adjusted for inflation and compared to today's rates, would today's rates be higher? If so, why?

Adjusting rates from 2000 for inflation only (about 3% annually on average) yields an increase of $52.46, lower than the proposed $56.73. The reasons for this are: many costs have generally increased at rates higher than inflation, and the addition of new programs, some discretionary (like the apprenticeship program) and some mandatory (like FERC fees and NERC compliance initiatives). The drivers of differences between costs in 2007 and current are discussed in depth in the response to question #4.

Question 4
If we took the 2007 budget as a base and added only what had to be added to cover inflation, etc, what would the consequences be to the utility? In using the $61 million table in response to this, please put it in a format that identifies controllable and uncontrollable costs.

The $61 million "gap" refers to the difference between the 2007-2008 Revenue Requirements and the 2010 forecast of Cash to Operations (O&M) per the 2010 Endorsed Budget. It is important to make the distinction between the 2007-2008 Revenue Requirement and the 2007 adopted Budget. The Revenue Requirement in the 2007-2008 Rate Study was the projected 2007-2008 budget, which was forecasted many months before the budget was finally adopted. When the 2007 O&M budget was finally adopted, it was larger than what was forecasted in the 2007-2008 rate study.

One approach is to break out the $61 million "gap" into three categories: (1) Required New Programs, (2) Discretionary New Programs and (3) Total Inflation/Cost Increase. Required Programs are those that are required by either the City or another governmental agency (note that Boundary relicensing was included in Required Programs on grounds of its significance). Discretionary New Programs are programs City Light has identified as important, but were not mandated. All Discretionary Programs have been approved through the City's annual budgeting process. The last category, Inflation/Cost Increase, includes the baseline inflation adjustments, wage settlements, and identified cost increases. The Table below breaks out the $61 million "gap" into the three categories. For more information about the individual programs, please see the tables provided earlier as part of the gap analysis.

Each program would have a separate "consequence" to the Utility if it was no longer funded in 2010. Consequences/Impacts to the Utility for some of the Programs could be assessed upon request.

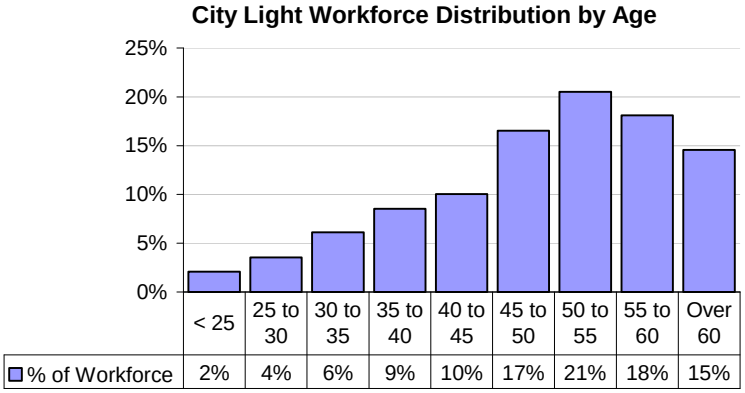
Required New Programs	$ millions	Discretionary New Programs	$ millions
Boundary relicensing	1.2	14 construction mgmt. staff	1.8
Fire resistant clothing	0.3	Integrated Resource Plan	0.3
NERC/regulatory compliance	2.2	Boundary sluice gate maint.	0.6
Call Center (paid to SPU)	1.7	Diablo dredging/cleaning	1.8
Energy efficiency fund	0.2	Skagit/Boundary-vessel maint.	0.4
City cost allocations	1.6	Skagit water system improvemt	0.2
Duwamish cleanup	2	63 skilled/lineworker positions	4.6
Rent from City	2.6	Apprenticeship program	0.8
Safety compliance	0.4	Asset Management	2.5
Total	**12.2**	Pole testing/treatment	1.1
		Field system & substation O&M	0.5
Inflation/Cost Increase Total	**24.5**	Overtime to repair outages, etc.	-1
		Tree trimming to avoid outages	4.3
		5-year plan	4.2

Summary			
Required New Programs	12.2	Climate studies program	0.9
Discretionary New Programs	24.3	Greenhouse gas offsets	0.9
Inflation/Cost Increase Total	24.5	Low-income assistance	0.2
		Risk management audit	0.2
Total	**61.0**	**Total**	**24.3**

Question 5

Provide a distribution of the workforce by age. Indicate the portion of employees eligible for retirement over the next five years.

Here is a distribution of City Light personnel by age and a table showing retirement eligibility by year:



Year	Percentage of Employees Eligible to Retire
2009	33%
2010	37%
2011	44%
2012	48%
2013	52%

Question 6

Provide assumptions about load growth over the next few years.

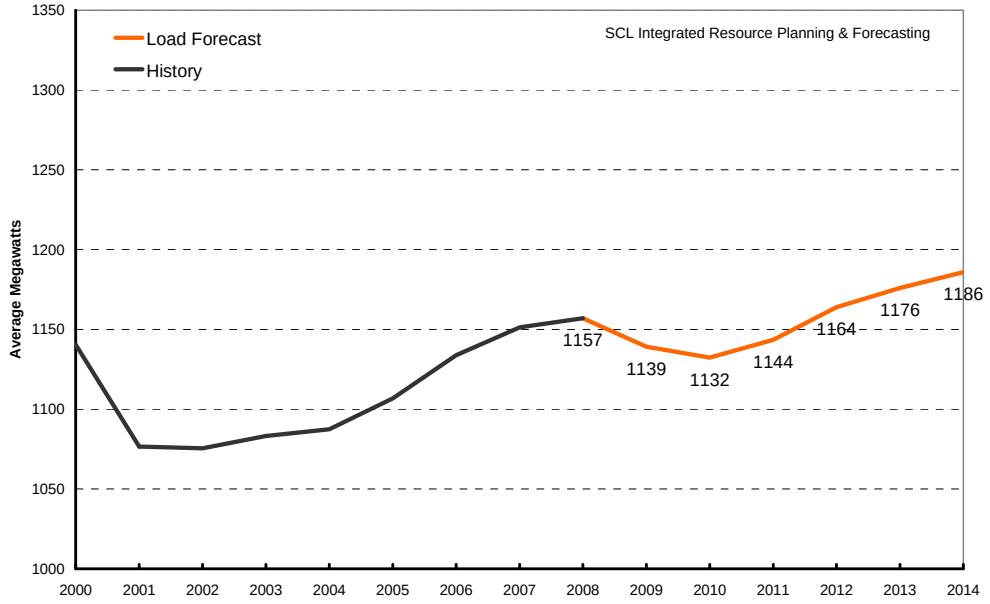
Response:

The load forecast used in the rate study was developed in March 2009. Here are the major assumptions behind City Light's load forecast:

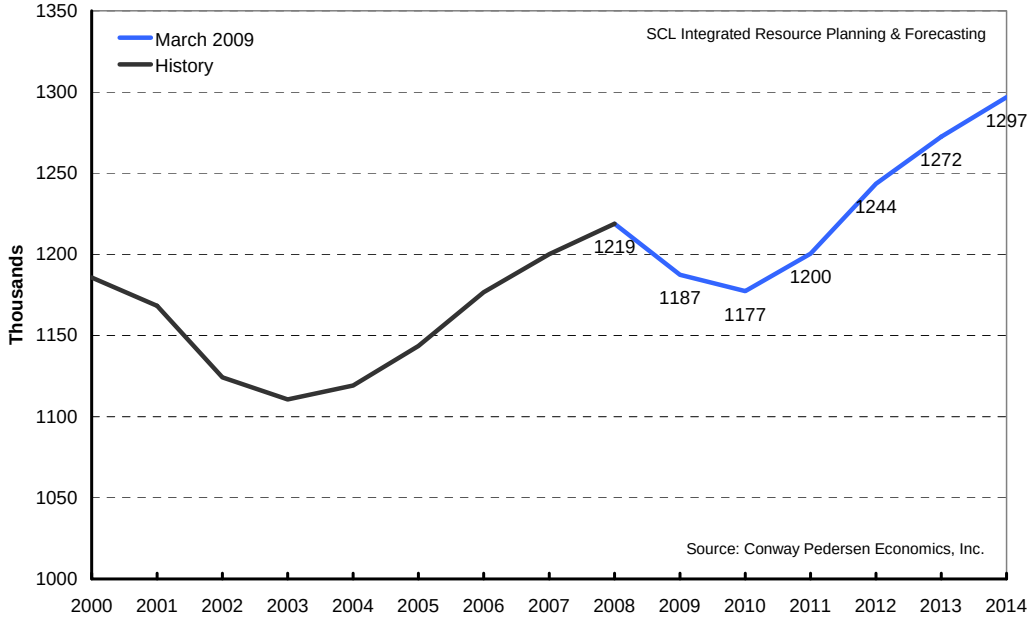
- The main driver of electric power consumption is economic activity.
- SCL load growth is dominated by commercial sector load growth.
- The main driver for load growth in the commercial sector is employment.
- Load began leveling off in mid-2008, as local unemployment began to rise.
- The current decline in load is expected to end during 2010.
- Load is not expected to regain its 2008 level until 2012.
- The effect of the recession on load was derived from forecasts of economic variables from Dick Conway and Associates for the local economy and from HIS Global Insight for the national economy.
- The load forecast is tracking well against 2009 weather normalized actuals

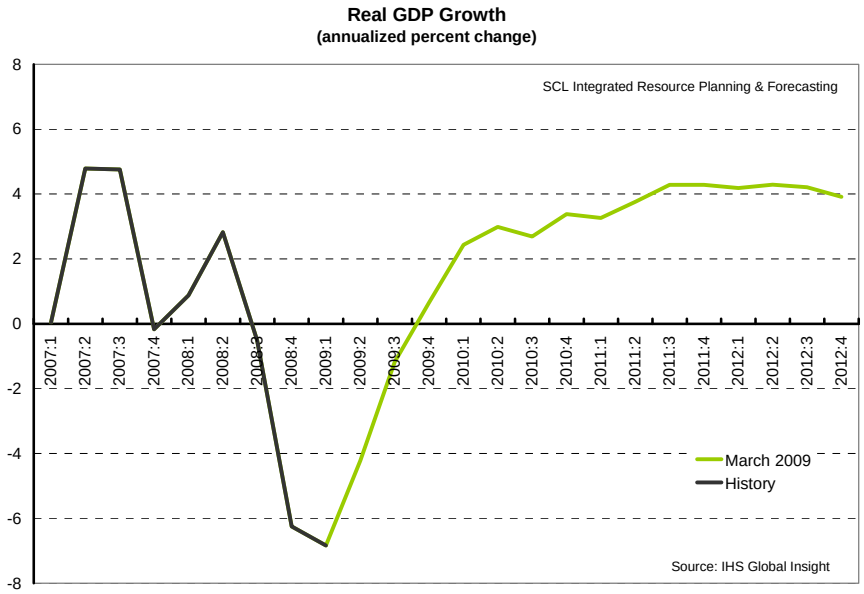
The three charts below show City Light's load forecast, and forecasts of two major drivers: King County Employment and Real GDP growth.

Load Forecast, March 2009



King County Employment Forecast





Question 7
Provide the Advisory Committee web site to the RAC. (see below)

http://www.seattle.gov/citylightadvisorycommittee/members.htm

Question 8
Provide a report from previous RAC's.

Attached are materials from 1999, 2003-4, and 2006 RAC's.

Question 9
Provide information on the types of cuts that were made.

Please see the attached Budget Issue Papers.

Question 10

Provide a list of large projects caused by others over which the utility has little control.

City Light Proposed CIP Spending -- Large Projects Caused by Other Agencies

2009 Constant Dollars in Thousands

Project Title		Year 2010	2011	2012	2013	2014	2015	Comments
City Development Projects								
7805 Cedar Falls Switchyard - Expansion for Morse Lake Pumps		2,365						
8369 Transportation Driven Relocations		2,358	584	2,372	2,391	935	1,559	Ongoing program
8376 Mercer Corridor Relocations		4,395	7,444	5,956	1,722			
8377 Transportation Streetlights		1,709	1,409	1,391	1,390	1,398	1,389	Ongoing program
8403 Citywide Undergrounding Initiative - City Light		1,802	2,899	2,632	2,494	2,603	2,552	Ongoing program
8420 Cedar Falls - Chester Morse Lake Pump Station Line Extension		1,230						
9215 South Service Center Spokane Exit Modification		1,461	3,565	643				
City Development Projects	Total	15,320	15,900	12,994	7,998	4,936	5,500	
		7%	8%	5%	4%	2%	3%	
Other Government Agency Projects								
7105 Transmission Inter-Agency		485	488	488	488	481	477	Ongoing program
8204 Sound Transit Light Rail - City Light		765	279	26	11	219		
8307 Alaskan Way Viaduct and Seawall Replacement - Utility Relocs		5,312	6,144	9,423	17,506	34,647	38,280	Project continues
8320 Shoreline Undergrounding: North City and Aurora Avenue North		6,744	7,043	2,615				
8374 Shoreline Undergrounding: Midvale Ave.		679	12					
8401 Burien Undergrounding - Phase 2		2,195						
8427 Sound Transit Northlink - City Light		19	230	255	405	408	408	Project continues
8443 Mercer Corridor West Phase Relocations		883	930	3,849	5,055	1,944		
8444 SeaTac Undergrounding		1,592						
8442 First Hill Connector Streetcar		114	2,041	154				
Other Government Agency Projects	Total	18,788	17,167	16,809	23,466	37,697	39,166	
		8%						
Large Projects Caused by Other Agencies	**Total**	**34,108**	**33,067**	**29,804**	**31,464**	**42,634**	**44,665**	
		15%	16%	13%	14%	18%	23%	
SCL CIP	**Total**	228,232	202,649	238,216	227,987	237,393	193,413	

Question 11

How much would you have to cut to avoid having to have rate increases in 2011 and 2012?

The table below shows the estimated O&M decreases needed to achieve a given level of debt service coverage (DSC). Assumes City Light has an 8.8% rate increase in 2010 and all projected expenses/revenues in its 3 year rate proposal.

YEAR	**2011**	**2012**
Avg Rate with only BPA pass-through ($/MWh)	63.02	63.54
Retail Revenue ($ millions)	597.5	614.9
O&M cuts needed to achieve DSC ($millions)		
DSC of 1.7 in 2011 and 1.8 in 2012	30.9	72.6
DSC of 1.6 in both years	15.0	38.4
DSC of 2.0 in both years	78.7	106.8

Question 12

Provide the amount of debt that was paid down (from the peak early in this decade?).

Since 2002 when the debt outstanding was at its highest, City Light has paid down $356 M ($1,739 M-$1,383 M).

Year	**Year-End Balance of Debt**	**Debt issued**

	Outstanding ($ millions)	($ millions)
2000	1,104	99
2001	1,654	379
2002	1,739	1.2
2003	1,522	133
2004	1,537	70
2005	1,482	-
2006	1,414	-
2007	1,343	-
2008	1,457	185
2009	1,383	-

Question 13
Provide the debt service cost over the next two years.

The total debt service cost is estimated to be $150.7 M in 2010 and $159.4 M in 2011.
To help mitigate large increases in rates in the near term, City Light has proposed to delay both interest and principal payments for 1 year on all bonds issued in 2010 through 2012. Therefore, for bonds issued in 2010, the first interest payment is not made until 2011, and the first principal payment is not made until 2012. A similar pattern will be followed for bonds issued in 2011.

There is no projected impact on 2010 debt service from the 2010 bond issue. Delaying the first interest payment as described above reduces 2010 revenue requirements by $11.0 million, assuming 1.6x debt service coverage.

Question 14
Provide information on the actual cost increases experienced as opposed to the inflation indices used in the calculations.

Actual 2008 O&M expenditures were $38.9 million above the level assumed in the 2007-08 Rate Study. Some of this difference is due to many of the new programs discussed in the response to question 4. In addition, some of the difference is due to an underestimate of expenses in the 2007-08 Rate Study; as noted in the response to question 4, the adopted budget and actuals came in considerably higher than the Rate Study assumption. Finally, some to difference is due to actual increases in labor and material. However, unfortunately there is not sufficient information available to clearly break out the last two categories as the labor and material cost assumptions were not made explicit in the 2007-2008 Rate Study.

It may be possible to compare the labor/non labor expenses between actual budgets from 2007-2009 if more information is needed, but as with the forecast data, breaking out the data into subcomponents may be a challenge.

Question 15
What impact, if any, might there be on attaining or maintaining the kind of bond rating the Utility desires if a PRAM mechanism were approved but had a sunset provision that forced a re-evaluation of the mechanism say in five years?

Answer will be provided by Rod Kauffman at the meeting

Question 16 – Provide the cost of complying with I-937

Response:

I-937 and Conservation

I-937 requires utilities such as Seattle City Light (SCL) to acquire all cost-effective conservation and to meet a certain percentage of its load with new eligible renewable generating resources. SCL has been acquiring cost-effective conservation since 1978 and it remains the most cost-effective resource for meeting load growth compared to long term firm resource costs. As such, SCL would be acquiring a significant if not the same level of conservation resources regardless of requirements imposed by I-937.

Current and New Qualifying Renewable Resources

Under I-937 SCL, as a qualifying utility, must meet serve its load using eligible renewable resources based on the following schedule:

- 3% starting January 1, 2012
- 9% starting January 1, 2016
- 15% starting January 1, 2020

In 2002, SCL acquired 175 MW (50 average MW energy) of Stateline wind. This resource helps SCL fully meet its renewable energy requirement in 2012 and contributes significantly towards SCL meeting the 2016 and 2020 requirements. The price of this resource, delivered to City Light's system, is very competitive compared to both the short term energy markets and alternative new renewable resource costs and therefore does not represent an incremental cost of I-937.

In 2009, City Light acquired the output from Waste Management Inc.'s Columbia Ridge 6.4 MW landfill gas renewable resource to meet I-937 requirement and to meet long term customer load growth. This resource is expected to start commercial operation on November 15, 2009. The cost of this new resource is included in the current rate request at about $3 million annually. Once the resource comes on-line the output including the environmental attributes will be sold into the short term market until needed to meet load and/or I-937. The sale of this excess generation, including environmental attributes (otherwise known as RECs or Green Tags), will likely result in a negative net revenue for the next couple of years given the depressed shorter term energy markets and high long term renewable resource energy costs. This negative revenue impact could be upwards of $1 million per year to SCL.

Also in 2009, City Light acquired the generating output from King County's 4.6 MW West Point treatment plant. This generating project is expected to be on-line April 2013. The output and environmental attributes will also be sold into the short term market until they are needed to meet firm load and/or I-937 requirements. Based on current estimates, the remarketing of this excess generation could result in a negative revenue impact upwards of $500,000 per year.

Looking forward, SCL is projecting the need for 25 to 50 average MW of additional renewable resources to meet the I-937 15% of load requirement in 2016. Given current forward market projections, we anticipate that these renewable resources will come at a premium as well compared to their value in the short term energy market. Assuming SCL acquires 25 average MW beginning 2016, the additional negative revenue impact to SCL could exceed $5 million annually.

The length of time for the adverse impacts of the above resources is difficult to predict. It could be upwards of 5-years.