

the

light report



September 2003

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Superintendent's Summary

The Great Blackout has filled the U.S. Congress with the enthusiasm necessary to pass energy legislation -- and quickly. All sides of the deregulation debate are seizing on the notion that had only their solution been in place the blackout would not have happened.

Immediately after the blackout, the administration seemed poised to abandon Standard Market Design (SMD) until some date in the future. However, some of the SMD zealots appear to have made inroads and there is some indication that SMD and its rhetoric about the "smart web" and "simple design" are giving the Administration's leadership team second thoughts.

Newspapers across the country are weighing in with wildly different interpretations about what to do. On September 1, Paul Krugman in the New York Times excoriated electricity deregulation at the same time the Washington Post was calling on FERC to work its marketplace magic for the benefit of all.

A number of people representing local interests are heading to Washington next week. Jim Harding, our Intergovernmental Relations Director, will be there along with a several people from the Large Public Power Council. They will work the hill on behalf of western and southeastern utilities who are trying to bury SMD to protect the interests of our customers.

Jim Ritch, Acting Superintendent

Rate Fluctuations the Norm for BPA

We keep seeing headlines about changes in Bonneville Power Administration rates. And we will continue to see them, because the BPA's Cost Recovery Adjustment Clauses, or CRACs, change every six months.

City Light gets about one-third of its power from BPA. Approximately 70 percent of this comes as a "slice" of the federal system, by which Seattle gets 4.7 percent of BPA's power production in return for paying that percentage of BPA's actual costs. The rest of our BPA allotment comes in pre-set monthly amounts, or "blocks" of power.

BPA has three CRACs in case its costs increase or it earns less surplus revenue than projected when base rates were set:

- The Load-Based (LB) CRAC (which applies to both Slice and Block) is designed to pay for power that BPA must buy on the market to meet its load.
- The Financial-Based (FB) CRAC takes effect if revenues fall below a pre-set threshold.
- The Safety-Net (SN) CRAC is triggered if BPA has missed a treasury payment or if it forecasts a 50 percent probability that it will miss such a payment during the current fiscal year.

The FB and SN CRACs apply only to the block portion, which reduces their effect on City Light customers. As a rule of thumb, for every BPA increase or decrease of 10 percent, the effect on City Light rates is about 0.5 percent.

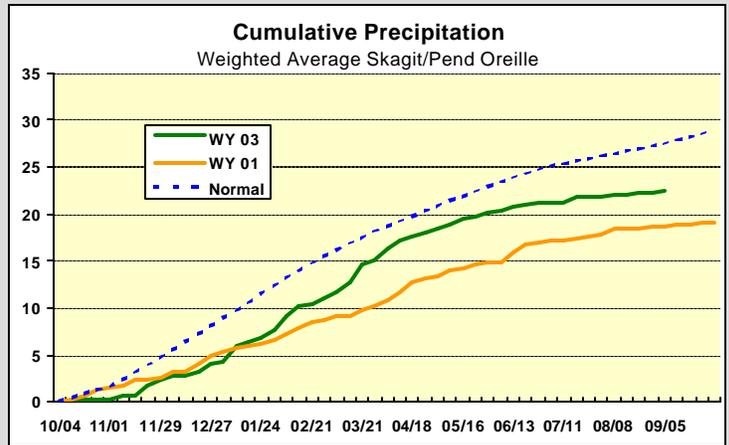
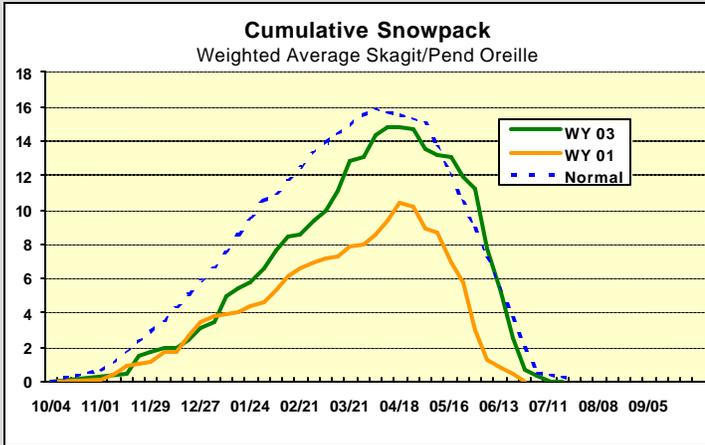
Currently, the combined effect of all the CRACs on the block portion of our BPA power is about 49 percent above base rates. On Oct. 1, the Load-Based CRAC will go down from 38 percent to 21 percent, but BPA will implement a Safety Net CRAC of 13%, keeping total rates about the same. BPA projects that its combined surcharges will average 52.4 percent through 2006.

Utilities and industrial customers objected to BPA imposing the Safety Net CRAC this year, since the agency has a 100 percent probability of making its Treasury payment, plus a projected cash balance of \$460 million. BPA says it could drop or reduce the Safety Net CRAC only if public utilities agree to settle a lawsuit over the amount of money that BPA provides to the region's investor-owned utilities. City Light is not a party to that suit.

Finally, a word about City Light's slice of Bonneville. If BPA has cost overruns or revenue shortfalls in a given year, we pay a slice "true-up" early the next year to cover our share of the difference. Early this year, we paid a slice true-up of \$10.7 million. We then undertook, with other slice partici-

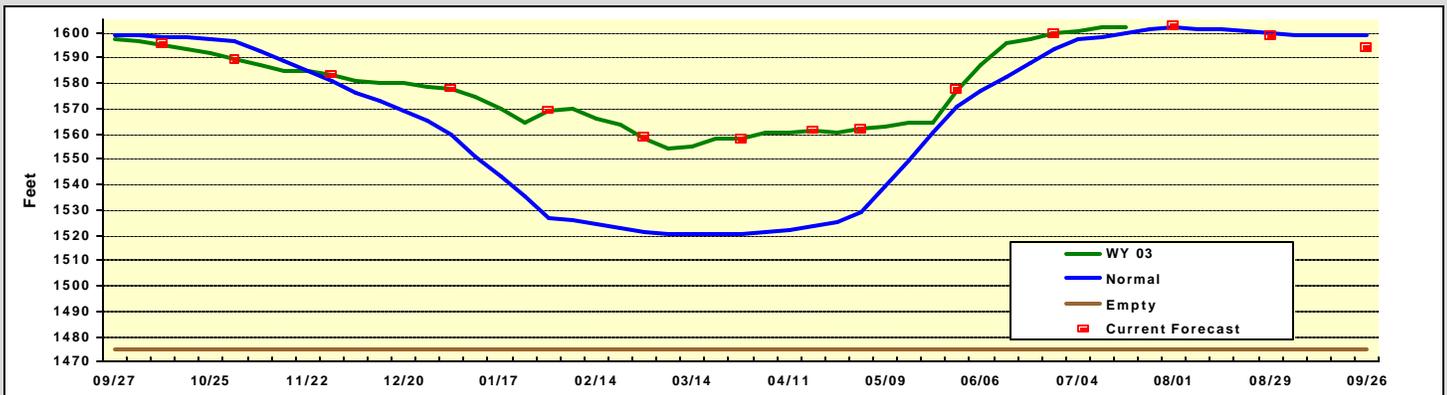
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- Water Resources as of August 29, 2003 - Snowpack and Precipitation



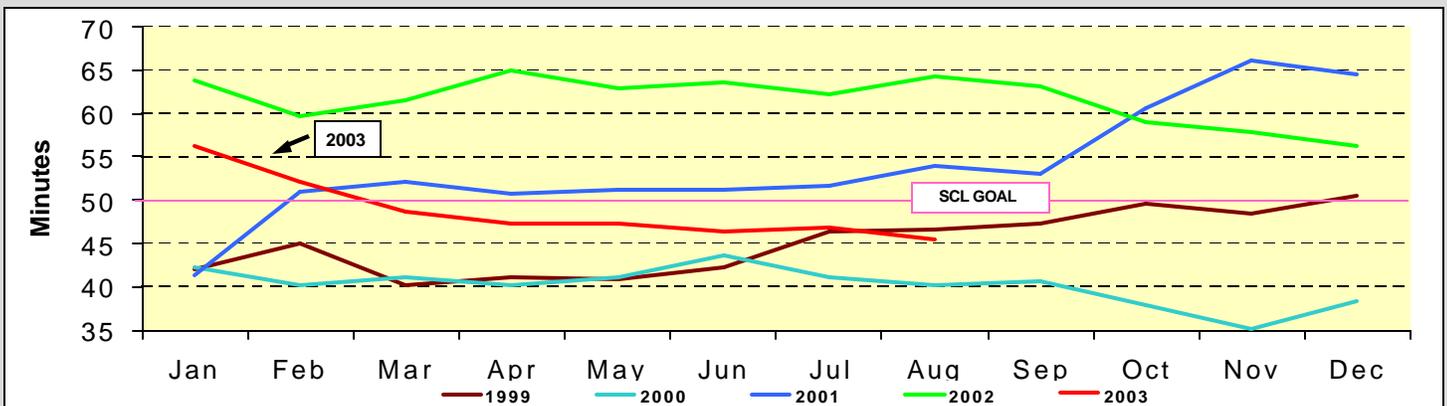
The drought continues to drive our strategy to manage our water resources (see Ross Levels below). The week ending Friday, August 29th, marked the thirteenth week since the beginning of June with zero precipitation at the Skagit. For the month of August, the Skagit received 12% of normal precipitation, while Boundary received 50% of normal.

Ross Reservoir Levels



We have achieved our goal to keep Ross at 1598 feet through Labor Day. This level allows for full access to all docks, campsites and other recreational facilities. Our next goal is to maintain Ross above 1565 feet through October to ensure access for spawning Bullhead Trout to tributary streams.

- System Reliability - Average Customer Outage Minutes, January 1999 – July 2003



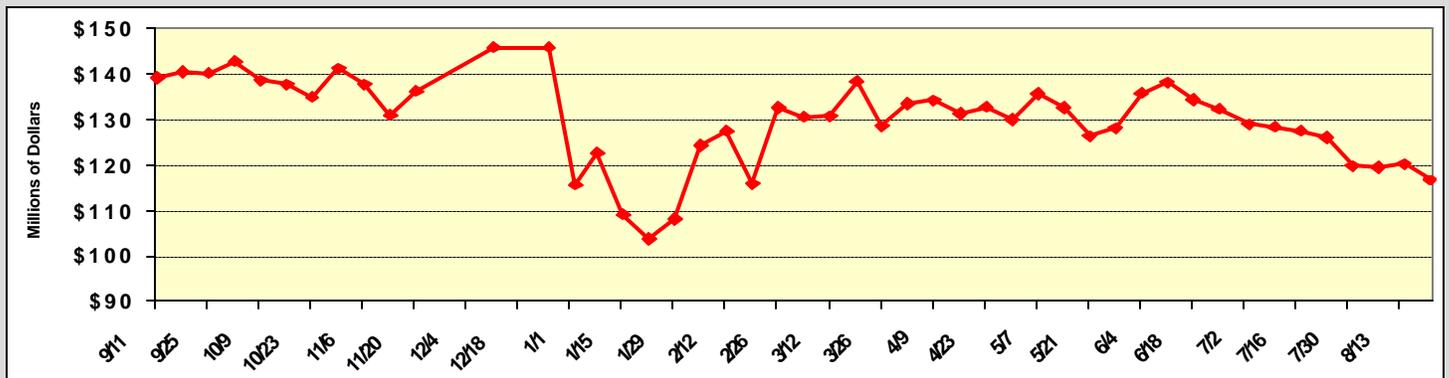
The System Average Interruption Duration Index (SAIDI) decreased by more than a minute to 45.5 for August, its lowest level since January 2001. Equipment related outages contributed almost 50% of the outage impact, with tree-related problems contributing over 25%. About 80% of the total outage impact was on the overhead system.

- Markets and Power Management - Forward Power Prices, Current vs. Operating Plan

	High Load Hours			Low Load Hours		
	Operating Plan	Current	Change	Operating Plan	Current	Change
Jan 03	\$40	\$40	\$0	\$32	\$32	\$0
Feb 03	\$35	\$74	+\$39	\$30	\$70	+\$40
Mar 03	\$34	\$24	-\$10	\$28	\$21	-\$7
Apr 03	\$34	\$32	-\$2	\$24	\$30	+\$6
May 03	\$26	\$32	+\$6	\$16	\$22	+\$6
Jun 03	\$24	\$41	+\$17	\$16	\$33	+\$17
Jul 03	\$37	\$49	+\$12	\$25	\$39	+\$14
Aug 03	\$46	\$41	-\$5	\$31	\$37	+\$6
Sep 03	\$39	\$44	+\$5	\$27	\$35	+\$8
Oct 03	\$42	\$43	+\$1	\$31	\$36	+\$5
Nov 03	\$40	\$44	+\$4	\$30	\$38	+\$8
Dec 03	\$44	\$48	+\$4	\$35	\$40	+\$5

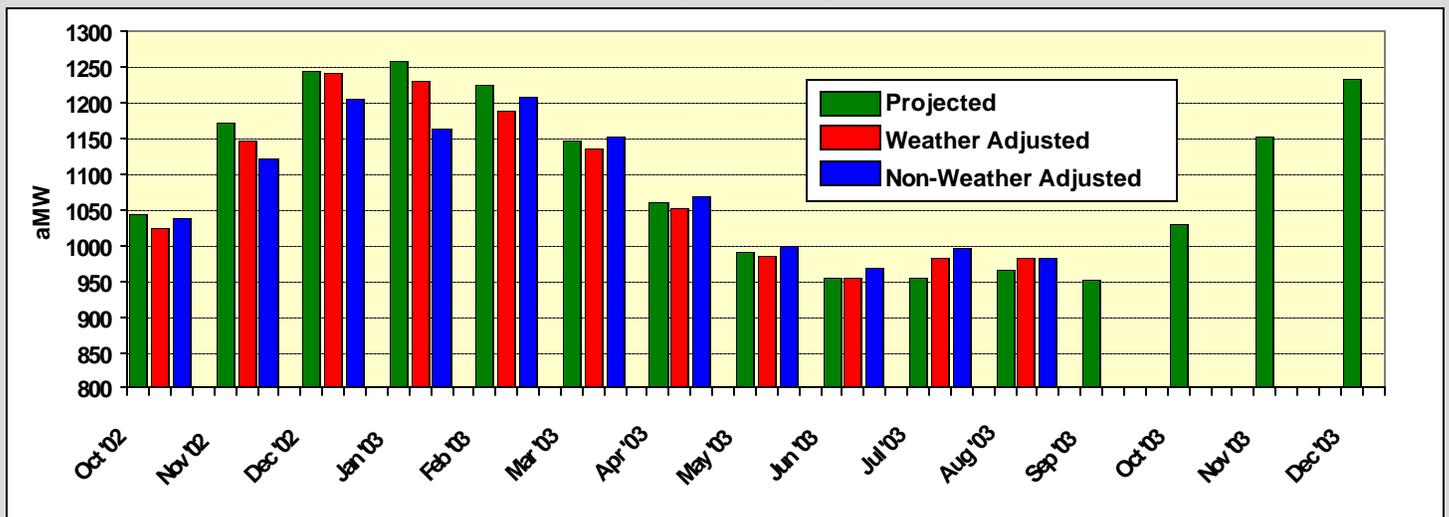
This table compares the forward prices for energy as of August 18, 2003 with the forward prices assumed in the October 2002 operating plan.

Market Value of 2003 Position



Although City Light sold a large part of its projected surplus forward at known, fixed prices, because of the unpredictability of its hydro production it must keep a sizeable portion in reserve. This amount is vulnerable to price fluctuations.

Load History and Projections



Load is showing signs of recovery for the second month in a row. Weather-adjusted load for August is up 3% from its recent low of 961 aMW in 2001, but is still 4% lower than its previous high of 1029 aMW in 1999.

pants, an audit of these costs, as specified in the slice contracts. According to the audit, BPA overcharged us and owes us about \$6 million for '02. BPA rejected most of those audit findings, so Seattle and other Slice customers will pursue arbitration. One bit of good news is that BPA projects the true-up for 2003 will be a \$6 million refund to Seattle.

Bits and Pieces: News and Notes from City Light and the Utility Industry

- **Northwest Power Reliability:** Seattle City Light staff responded quickly to local media inquiries on the day of the Northeast blackout. Mike Sinowitz, Deputy Superintendent for Power Management, briefed reporters on Western transmission issues. Later, Seattle City Light briefed the City Council on Northwest reliability. Brian Silverstein, Bonneville Power Administration, described investments that have been made or are underway to prevent voltage collapse or blackouts in this region.
- **Energy Bill:** Following the blackout in the Northeast, congressional leaders and the Administration announced their expectation that conference committee negotiations will be complete by September (see summary, page 1).
- **Capacity Payment Options Analysis:** The Utility is participating in discussions on this topic with the City's Office of Management and Planning. A report is being drafted that examines the policies other utilities used to mitigate the risk of stranded investment as well as sharing costs of system expansion with customers.
- **Project Share:** The Utility's customer-funded emergency bill payment program has spent down its reserves. We are researching new fund-raising ideas including how to solicit larger-scale donations. We hope to include Project Share as part of the Combined Charities Campaign this year.
- **New Local 77 Business Representative:** In August, Sherman Williams became Seattle City Light's new representative. He is a former SCL employee.
- **Power Grid Fixes:** Saying competitive electricity markets have failed consumers, an influential energy panel called Thursday for new investment incentives and a bigger role for federal regulators to make the nation's "seriously overloaded" power system more reliable. The recommendations from the National Commission on Energy Policy were issued days ahead of congressional hearings on the nation's worst blackout.
- **The Bonneville Power Administration** said it expects wholesale electricity rates to go up 2.2 percent in October, a smaller increase than it had originally predicted but still too much in the eyes of some customers and critics. The impact

of that rate increase on consumers and businesses will depend on what utility serves them, how much of its overall supply that utility buys from Bonneville and under what programs that electricity is purchased. "Our total Bonneville cost will probably not go up because of our contract mix," said Kevin Clark of Seattle City Light.

- **Clean Air Act Rules:** On August 27 the Bush administration officially put into effect a controversial change in Clean Air Act rules that allows power plants, refineries and other industries to replace equipment and increase emissions without installing modern pollution-control devices previously required by law. "The administration is once again doing the bidding of the coal and energy industries, at the expense of public health and the environment," said Angela Ledford, director of the Clear the Air environmental group. "This rule is patently illegal, and we are confident we will prevail when we challenge it in court."
- **Green Power:** Utility customers throughout Washington state and the Northwest increasingly are choosing to support environmentally friendly energy sources -- even if it means paying more each month, a new report says. The number of Seattle City Light customers opting for green power -- and willing to pay \$3 to \$10 more each month -- has risen to 3,900 since the program was implemented in January 2002. The extra revenue -- an estimated \$238,000 since the program began -- has funded solar panels at schools, parks, the zoo, and the Carkeek Park Education Center.
- **Monitoring energy markets:** After the widespread energy shortages and price hikes on the West Coast more than two years ago, FERC announced in January 2002 that it was creating a new Office of Market Oversight and Investigations to deal with concerns that it was not adequately overseeing the markets. But the new agency has yet to develop formal procedures to guard against anti-competitive behavior. "At this point its processes are largely informal and ad hoc, and it has few written procedures to ensure that its efforts are coordinated, systematic and well understood by its staff," said a GAO spokesperson.
- **New Power Plant in Darrington:** Darrington Energy applied last week to the state Department of Ecology for the first of several permits to build a wood-waste-burning electricity plant next to the Hampton timber mill. The new plant would generate about 20 megawatts of electricity that could be sold to Snohomish County PUD or Seattle City Light. The idea has drawn concern from some local leaders.
- **City Light is participating** with other utilities on a new cow-manure-to-energy power plant in Puyallup. The plant will help dairy farmers by providing better disposal options and reducing methane emissions.

UPCOMING COUNCIL AGENDA ITEMS

Sep 4: Energy and Environmental Policy Committee:

- Regional and National Energy Policy Update (Jim Harding)
- Distribution and Capacity Plan Review Update (Curt Conger, Hardev Juj)

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