Overview and Initial Issues Identification
SEATTLE CITY LIGHT (SCL)

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Table 1: Functional Breakout of Proposed Budget

	2011 Adopted Budget	2012 Endorsed Budget	% Change from 2011 Adopted	2012 Proposed Budget	% Change from 2012 Endorsed
Expenditures					
Non-Power O&M*	$251,862,111	$255,103,674	1.29%	$260,368,085	2.06%
Purchased Power					
Long-Term Contracts	$239,045,159	$248,478,962	3.95%	$241,707,585	-2.73%
Short-Term Market	$56,574,065	$67,097,923	18.60%	$67,121,923	0.04%
Wheeling Charges	$40,556,159	$39,785,732	-1.90%	$39,761,732	-0.06%
Upstream Storage	$1,674,500	$1,794,900	7.19%	$1,794,900	0.00%
Green-Up RECs	$1,145,400	$1,477,700	29.01%	$1,477,700	0.00%
Total Purchased Power	*$338,995,283*	*$358,635,217*	*5.79%*	*$351,863,840*	*-1.89%*
CIP	$197,446,877	$205,164,293	3.91%	$190,126,315	-7.33%
General Expense	$68,064,440	$71,300,685	4.75%	$76,790,566	7.70%
Debt & Taxes	$216,797,794	$250,672,348	15.62%	$256,622,742	2.37%
Total Expenditures	**$1,073,166,505**	**$1,140,876,217**	**6.31%**	**$1,135,771,548**	**-0.45%**
Revenues					
Retail	$650,708,869	$691,418,974	6.26%	$677,146,329	-2.06%
Wholesale	$159,619,985	$177,385,612	11.13%	$165,096,963	-6.93%
Other Revenues	$69,094,684	$61,161,968	-11.48%	$72,317,098	18.24%
Transfers from Construction Fund	$193,742,967	$210,909,663	8.86%	$221,211,158	4.88%
Total Revenues	**$1,073,166,505**	**$1,140,876,217**	**6.31%**	**$1,135,771,548**	**-0.45%**
Total FTEs	**1,810.50**	**1,810.50**	**0.00%**	**1,810.50**	**0.00%**

** includes O&M at City Light's own generating plants*

Introduction

Table 1 presents City Light's budget by functional area to facilitate discussion. The 2012 Proposed Budget by Budget Control Level (BCL) is in Table 2 on page 5 for reference. As noted during City Light's presentation on October 6th, apart from internal adjustments the 2012 Proposed Budget is essentially the same as the 2012 Endorsed Budget discussed last year, differing from it by less than half of one percent. As a consequence, with the exception discussed below, there are no outstanding issues with the 2012 Proposed Budget.

Budget Legislation

There will be a green sheet recommending passage of a Council Bill authorizing City Light to issue up to $200 million in bonds for 2012 to support its capital program.

Issues

The only significant issue for 2012 that warrants the Council's attention is not apparent from either Table 1 or Table 2: In particular, a large mismatch between the amount of (net) wholesale revenue assumed in the budget and the amount of wholesale revenue City Light is likely to realize in 2012. The target amount of wholesale revenue underlying both City Light's 2012 Endorsed and 2012 Proposed Budgets is $102 million. This figure is determined by Ordinance 123260 establishing the operating parameters of the Rate Stabilization Account (RSA). However, the utility's best estimate of wholesale revenue for 2012 is now $60 million.

The utility's latest financial forecast indicates that the RSA balance will be $104 million (slightly above its target of $100 million) at the start of 2012. If City Light is correct about next year's revenue then it will draw the Account balance down by $40 million over the course of the year, triggering a 1.5% surcharge when the balance drops to $90 million, then 3.0% at $80 million (if the balance drops to $70 the surcharge is 4.5%). Since the surcharge would need to collect $36 million to bring the Account balance back to $100 million, we would expect surcharges to be in place from about the second quarter 2012 through 2013.

The Council anticipated the possibility of this mismatch for 2012 during the Fall 2010 budget discussions. However, it decided at that time to postpone action on it until the budget discussion this year when the situation might be clearer.

While the estimate of the mismatch has not changed substantially since the earlier budget discussion, the circumstances of the utility have changed, and fortunately for the better. City Light will receive approximately $12 million more in retail revenue this year than expected and its costs have been lower than expected by about $9 million. The utility thus expects to end the year with a fund balance around $21 million higher than anticipated.

There are several options for the use of this excess fund balance:

- Leave the balance in the Light Fund;
- Reduce 2012 rates; or
- Move the excess into the RSA.

(i) Leave the Excess in the Light Fund

Under this option the utility would begin 2012 with a higher fund balance than planned and hence would need to borrow less to support the capital program in 2012 than it would otherwise. This would reduce the amount of long-term debt outstanding by a small amount and result in lower rates in the future as a consequence. However, the effect on long-term debt would be extremely small and the consequent reduction in long-term rates would similarly be small.

If the Committee chooses this option no further action is necessary.

(ii) Reduce Rates in 2012

The excess could be used to reduce rates in 2012 by approximately three percentage points. Such a reduction would provide some financial relief to both residential and commercial customers in these difficult economic times. However, this option would have three undesirable consequences.

First, by reducing City Light's total planned revenues in 2012 by $21 million without any corresponding reduction in its costs in 2012, it would reduce its debt service coverage to 1.67, below the 1.80 target set for it by the Council.[1] Although not a large difference, the financial underperformance would be the result of deliberate Council action to violate its own financial policies at a time when such action does not appear to be forced on it by circumstances. This would send the wrong message to financial markets.

Second, since the funds represent a one-time windfall, the rate relief would also be one-time. The three percent reduction would have to be *reclaimed* in 2013 on top of any other rate adjustment that might at that time be deemed prudent.

Third, the thrust of the Council's decision to establish the RSA and at the same time to request that City Light bring forward a six-year "strategic plan" was to put the utility's revenues, expenditures, and financial performance on a stable path. Temporarily adjusting base rates in the face of a one-time windfall would seem to run counter to that effort.

If the Committee chooses this option there will be a green sheet recommending passage of a Council Bill establishing new City Light rates.

(iii) Move the Excess to the RSA—**Staff Recommended**

This option has considerable appeal as it would go a long way to offsetting the negative consequences of the mismatch, noted above, between anticipated wholesale revenue in 2012 and the target set for it by the RSA. Instead of starting 2012 with a balance of around $104 million in the RSA, City Light would be starting with a balance of around $125 million. With that it could sustain a shortfall in wholesale revenue of $35 million before the Account balance hit $90 million and a surcharge was triggered. And since $35 million is the bulk of the $40 million anticipated

[1] While City Light has excess funds in 2011, accounting rules do not allow it to count those funds in 2012 for the purpose of calculating its debt service coverage.

shortfall, it is possible that there would be no surcharge in 2012, or, if there is one, it would likely be at the 1.5% level.

Moving the excess fund balance into the RSA clearly reduces both the likelihood and size of the rate surcharges we could anticipate in 2012. Moreover, since the surcharge would need to collect $15 before the Account balance reached its target of $100 million, we would not expect it to be in place as long as otherwise.

If the Committee chooses this option there will be a green sheet recommending passage of a Council Bill directing City Light to transfer the funds.

Other Changes that Do Not Warrant Analysis as "Issues" (optional):

None.

Additional Information Needed from Department (optional):

None.

Table 2: 2012 Proposed Budget by BCL

Budget Control Level	2011 Adopted	2012 Endorsed	% Change	2012 Proposed	% Change
O&M					
Office of Superintendent	$2,877,000	$2,917,000	*1.4%*	$2,923,000	*0.2%*
Power Supply O&M	$63,200,000	$66,226,000	*4.8%*	$62,449,000	*-5.7%*
Conservation Resources and Environmental Affairs O&M	$48,130,000	$50,070,000	*4.0%*	$57,757,000	*15.4%*
Distribution Services	$68,103,000	$71,569,000	*5.1%*	$71,786,000	*0.3%*
Customer Services	$27,733,000	$28,402,000	*2.4%*	$26,848,000	*-5.5%*
Financial Services - O&M	$34,981,000	$29,156,000	*-16.7%*	$28,989,000	*-0.6%*
Human Resources	$6,837,000	$6,764,000	*-1.1%*	$6,791,000	*0.4%*
Compliance and Security	$0	$0		$2,825,000	*New BCL*
Non-Power O&M	**$251,861,000**	**$255,104,000**	***1.3%***	**$260,368,000**	***2.1%***
Purchased Power	$338,995,000	$358,635,000	*5.8%*	*See next two BCLs*	*-1.9%*
Long-Term Purchased Power	$0	$0		$284,742,000	*New BCL*
Short-Term Purchased Power	$0	$0		$67,122,000	*New BCL*
General Expenses	$68,064,000	$71,301,000	*4.8%*	$76,791,000	*7.7%*
Debt Services	$142,659,000	$173,113,000	*21.3%*	$178,151,000	*2.9%*
Taxes	$74,139,000	$77,559,000	*4.6%*	$78,472,000	*1.2%*
Total O&M	**$875,718,000**	**$935,712,000**	**6.9%**	**$945,646,000**	***1.1%***
CIP					
Power Supply & Environmental Affairs - CIP	$57,846,000	$43,973,000	*-24.0%*	$46,196,000	*5.1%*
Customer Services and Energy Delivery - CIP	$133,140,000	$153,217,000	*15.1%*	*See next two BCLs*	*-11.1%*
Transmission and Distribution - CIP	$0	$0		$64,872,000	*New BCL*
Customer Focused - CIP	$0	$0		$71,269,000	*New BCL*
Financial Services - CIP	$6,462,000	$7,974,000	*23.4%*	$7,790,000	*-2.3%*
Total CIP	**$197,448,000**	**$205,164,000**	***3.9%***	**$190,127,000**	***-7.3%***
Total Expenditures	**$1,073,166,000**	**$1,140,876,000**	***6.3%***	**$1,135,773,000**	***-0.4%***
Revenues:					
Retail Revenue	$650,709,000	$691,419,000	*6.3%*	$677,146,000	*-2.1%*
Wholesale Sales	$159,620,000	$177,386,000	*11.1%*	$165,097,000	*-6.9%*
Other	$69,095,000	$61,162,000	*-11.5%*	$72,317,000	*18.2%*
Transfers	$193,742,000	$210,909,000	*8.9%*	$221,213,000	*4.9%*
Total Revenues	**$1,073,166,000**	**$1,140,876,000**	***6.3%***	**$1,135,773,000**	***-0.4%***
Total FTEs	1,811	1,811	*0.0%*	1,811	*0.0%*