

Rate Stabilization Account (RSA)

City Light Revenue Sources 2014

- Retail (\$760 million)
- Wholesale (\$85 million *budgeted*)
- Other payments & sources (\$80 million)

Wholesale volatility 2002 - 2010

- High \$140 million
- Low of \$54 million
- Average: \$104 million

Bad Years 2009 and 2010

- Wholesale revenue ***half*** of forecast
- Shortfall over \$130 million for the two years
- Significant cutbacks in capital and O&M spending
- 13.8% rate increase for 2010

Council's Response

- Fund RSA to \$100 million in 2010 with:
 - \$25 million in existing reserves
 - 4.5% surcharge, beginning in May (ending Dec)
 - Proceeds of bond refunding – the lion's share
- City Light Review Panel
- Six-year Strategic Plan/rates

How RSA Works

- Target amount: \$100 million
- Wholesale revenue assumption set by Budget
- Difference between budgeted and actual wholesale revenue deposited or withdrawn quarterly
 - Balance drops below \$90 million – automatic 1.5% surcharge
 - Balance drops below \$80 million – automatic additional 1.5% surcharge (total 3%)
 - Balance drops below \$70 million – automatic additional 1.5% surcharge (total 4.5%)
- Surcharges come off as balance passes each threshold

Recent History

- Revenue less than forecast since 2011 because of low energy prices
- Continual drain on RSA
- Surcharges avoided by capturing year-end cash surplus

Current Situation (2014)

- RSA balance around \$90 million
- \$85 million budgeted in wholesale revenue
- Latest forecast around \$47 million
 - Continued low power prices
 - Very dry water year so far
- Shortfall will push balance below \$90 million by end of first quarter
- 1.5% surcharge starting second quarter unless Council transfers end-year (2013) cash balance to RSA
- Corrective action will delay surcharge(s)

Near-term Future

- Power prices expected to remain low
- Chronic mismatch between budgeted wholesale revenues and market reality
- Strategic Plan assumes gradually lower revenues, but not aggressively enough to avoid persistent surcharges