

2014 Strategic Plan Financial Assumptions 2015-2020

Summary

This document outlines the financial assumptions behind City Light's 2015-2020 Strategic Plan Update. Overall, customers can expect an average annual increase of 4.4% in Retail Rates from 2015 to 2020.

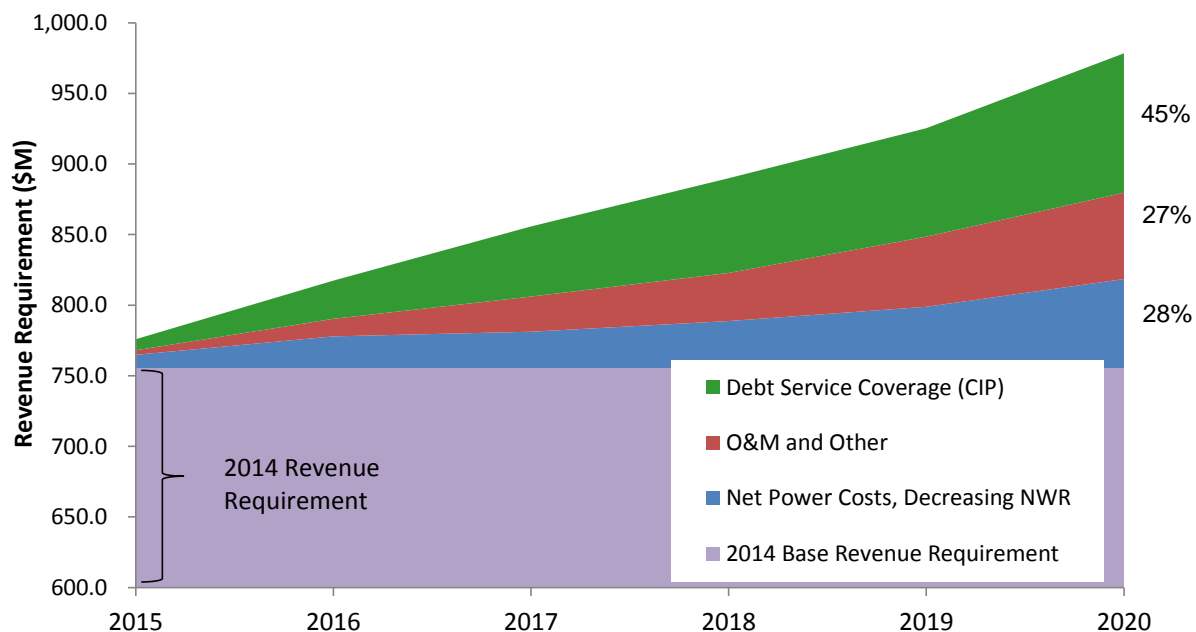
Rate Increase Summary

Does not include rate impacts from any future BPA pass-through or RSA surcharges/credits

	2015	2016	2017	2018	2019	2020	6 Yr Avg
Revenue Requirement (\$M)	774.1	815.6	854.0	888.2	923.5	976.6	
Retail Sales (GWh)	9,567.3	9,611.4	9,588.2	9,595.8	9,629.1	9,704.9	
Average Rate (\$/MWh)	80.9	84.9	89.1	92.6	95.9	100.6	
Annual Rate Increase	4.2%	4.9%	5.0%	3.9%	3.6%	4.9%	4.4%

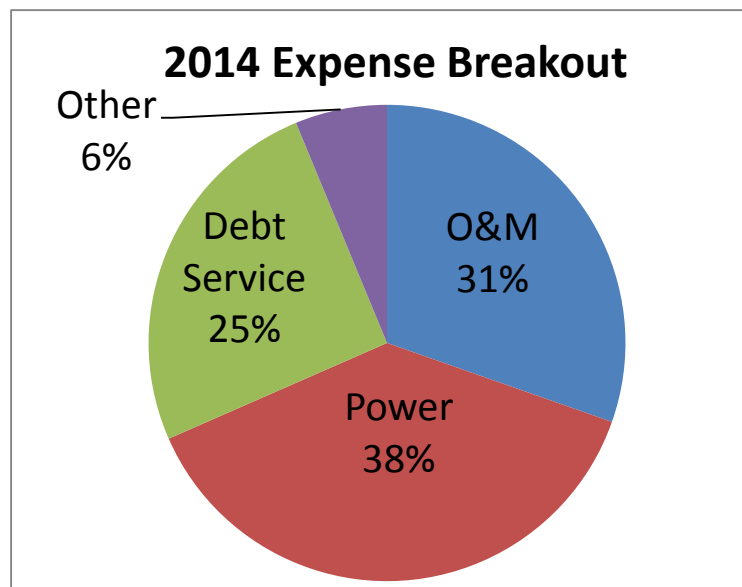
The major driver of the increase in City Light's revenue requirement is a 45% increase in repayment of debt that is issued to fund City Light's capital requirements. The remaining drivers of the increase are due to rising power and O&M costs.

2015-2020 Strategic Plan Revenue Requirement Drivers



The following table shows revenue requirement drivers in more detail.

Components of Revenue Requirement (\$M)				
Element	2014 Budget	2020 Plan	Increase (Decrease) 2020 vs. 2014	Proportion of Increase to the Revenue Requirement
Debt Service Coverage				
Debt Service Coverage for Capital Program (CIP) and Deferred O&M	\$341	\$440	\$99	45%
O&M, Taxes and Other				
O & M	\$238	\$291	\$54	27%
Taxes, Uncollectible Revenue, & Other	\$49	\$61	\$12	
Miscellaneous Revenue	(\$40)	(\$45)	(\$5)	
Net Power Costs				
Power Contracts Expense	\$274	\$296	\$22	28%
Net Wholesale Energy Revenue	(\$85)	(\$50)	\$35	
Power Revenues, Net	(\$23)	(\$17)	\$6	



Debt Service Coverage (CIP, Deferred O&M and Bonds)

Debt Issues

- Assumes a planned 2014 bond issue of \$200 million.
- Future bonds are sized to meet cash requirements for 12 months. Cash requirements are driven by the Capital Requirements and are partially offset by Capital Contributions and the amount of Operating Revenues used to fund CIP.

Capital Requirements

Capital Improvements (\$M)							
	2015	2016	2017	2018	2019	2020	Total
Power Supply	70.2	84.7	63.0	63.6	44.6	80.7	406.8
Boundary	36.6	41.6	40.4	41.1	23.0	36.5	219.2
Skagit	27.7	37.0	16.6	17.3	14.5	30.9	144.0
Cedar Falls - Tolt	1.8	1.7	2.1	2.6	6.0	7.7	21.9
Power Supply Other	4.1	4.4	3.9	2.6	1.1	5.6	21.7
Transmission	7.7	14.6	5.5	4.5	21.4	12.4	66.1
Distribution	206.4	234.7	157.2	123.4	156.9	178.6	1,057.2
Substations	48.8	84.4	20.2	19.2	20.8	7.2	200.6
Network	28.5	29.7	25.5	17.7	26.7	38.1	166.2
Radial	50.8	49.1	50.3	46.6	48.7	71.5	317.0
Service Connections	57.8	54.4	54.9	33.4	37.3	48.0	285.8
Distribution Other	20.5	17.1	6.3	6.5	23.4	13.8	87.6
External Projects	45.2	32.3	28.3	26.7	17.8	27.1	177.4
Local Jurisdictions	17.2	11.3	11.4	11.2	12.1	20.0	83.2
Transportation Relocations	27.1	21.0	16.9	15.5	5.7	7.1	93.3
Customer Other	0.9	0.0	0.0	0.0	0.0	0.0	0.9
Central Utility Projects	33.9	19.1	17.1	17.7	77.9	45.1	210.8
Customer and Billing	8.1	0.0	0.0	0.0	0.0	0.0	8.1
Finance and IT Systems	7.8	7.7	7.0	6.9	7.7	7.8	44.9
Fleets and Facilities	18.0	11.4	10.1	10.8	70.2	37.3	157.8
Totals	363.4	385.4	271.1	235.9	318.6	343.9	1,918.3

- Based on SCL's 2015-2020 proposed six-year Capital Improvement Plan (CIP):
 - Cash requirements (which differ slightly from the budgeted amount since budget dollars can be encumbered and carried forward to future years).
 - Assumes a 10% under-expenditure.
 - Inflated using CPI index (see below in O&M section).
 - Includes two new strategic initiatives in 2019-2020:
 - Distribution Automation - \$12.9 million (\$11.4 million in 2014 dollars).
 - Service Center replacement - \$106 million based on low cost option-- seismic upgrade only. Total price range is approximately \$90-\$450 million in 2014 dollars, not expected to exceed \$106 million in 2019-2020 for any of the options.

- Conservation forecast reflects planned expenditures necessary to achieve 14 aMW of new savings per year.
- Other Deferred O&M reflects forecasted costs for environmental cleanup, Skagit project license costs and a small amount related to S. Fork Tolt and the Endangered Species Act.
- Capital contributions and grants are anticipated sources of capital funding for specific projects from third parties.

Debt Service

- Outstanding debt will be repaid based on existing repayment schedules.
- Future bond issues have repayment assumptions of 30 years at 5% interest.
- For the 2014 issue an additional \$2.5 million reduction to debt service per year was included to account for new practices in City Light's liquidity management (which will ultimately reduce the required 2014 issue size).

Debt Issues, Capital Requirements and Debt Service (\$M)

Debt Service Component	2015	2016	2017	2018	2019	2020
Bond Issues						
Bond Issue Amount	292.4	240.3	212.3	206.9	283.1	207.6
Issue Costs	(1.8)	(1.4)	(1.3)	(1.2)	(1.7)	(1.2)
Deposits to Bond Reserve	(16.0)	(11.0)	(14.0)	(13.0)	(16.0)	-
Net Bond Proceeds	274.6	227.9	197.0	192.7	265.4	206.4
Capital Contributions and Grants	32.3	39.0	28.8	27.6	23.9	24.2
Capital Requirements						
Capital Projects	363.4	385.4	271.1	235.9	318.6	343.9
Conservation Projects	39.8	40.9	42.1	43.3	44.6	45.9
Other Deferred O&M	5.2	4.7	7.1	7.3	7.4	7.6
Deferred High Ross Charges	9.1	9.1	9.1	9.1	9.1	9.1
Total	417.5	440.2	329.4	295.7	379.8	406.5
Debt Service						
Existing Debt (debt held in 2013)	182.2	175.8	171.9	167.7	159.5	153.9
Future Debt Issues	11.8	28.9	45.3	59.2	72.8	90.6
Total Debt Service	194.0	204.7	217.2	226.9	232.3	244.5
Debt Service Coverage (1.8x)	349.2	368.4	391.0	408.5	418.2	440.1

O & M, Taxes and Other

O&M

Inflation

- The base forecast of O&M expenses for 2015 through 2020 was developed by taking the 2014 Adopted Budget and inflating it to account for the growing costs of operating the Utility. Different inflation factors were used based on the specific budget category.

City Light Inflation for Budget Categories

O&M Category	2015-2020 Growth Rate	Comments
Labor	2.4%	Expected to grow at around CPI inflation.
Maintenance - Data Processing	3.0%	Grows slightly faster than CPI inflation.
Non-Labor	2.4%	Grows at CPI inflation.
Supplies - Operating	8.0%	Includes IT equipment and software, fuel costs, inventory material for distribution and generation systems. Expected to increase much faster than CPI inflation.
Taxes - Licenses and Permits	2.4%	Grows at CPI inflation.
Labor Benefits	5.0%	Includes pensions, social security (FICA), medical-dental-vision insurance and all other labor benefits. Assumed to grow at a rate greater than CPI inflation.

- CPI Inflation forecast for 2015-2020 is based on Dick Conway's forecast for the Puget Sound Region, which is approximately 2.4% per year.

	2015	2016	2017	2018	2019	2020
CPI Inflation	2.4%	2.4%	2.4%	2.4%	2.3%	2.3%

Non-Inflation Adjustments

In addition to inflation, the following adjustments were made:

- Adding O&M costs for Strategic Initiatives above what is included in 2014 inflated budget.
- Including a \$10 million under-expenditure assumption based on historical spending vs. budget authority. This is equivalent to roughly 3% of the non-power O&M budget.
- Capitalized overheads—expenses in the O&M budget that will be recorded as capital or deferred O&M.
- Other adjustments:
 - Replacing the inflated 2014 FERC Fees with a forecast from City Light's Power Contracts Division.
 - Adding expenses for Renewable Energy Credits and Intertie O&M (items budgeted in purchased power but recorded as non-power O&M in City Light's financial reporting).

Non-Power O&M (\$M)	2015	2016	2017	2018	2019	2020
Inflated 2014 Budget	318.4	328.6	339.2	350.2	361.6	373.5
Initiatives above Inflated 2014 Values	3.5	1.3	1.7	1.0	3.0	4.0
Under Expenditure Assumption	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Capitalized Overheads	(79.4)	(81.1)	(81.1)	(84.8)	(87.2)	(89.2)
Other Adjustments	6.8	8.3	8.1	9.8	13.2	13.2
Total	239.3	247.0	257.9	266.2	280.5	291.4

Taxes, Franchise Payments, RSA Transfers and Uncollectible Revenue

- State taxes are 3.8734% of retail revenues, some other revenues and contributions. City taxes are 6%, but are not a direct rate driver since they are junior to debt service.
- Suburban franchise contractual payments for future years are calculated using the same percentage of retail revenue that is currently in use.
- Uncollectible Revenue is modeled as 0.9% of retail revenues.

Taxes, Franchise Payments, RSA Transfers and Uncollectible Revenue

\$ Millions	2015	2016	2017	2018	2019	2020
State Taxes	31.0	32.5	33.4	34.6	35.8	37.9
Other Taxes and Payments	4.4	3.7	3.8	3.9	4.0	4.0
Franchise Payments	5.9	6.2	6.4	6.7	7.0	7.3
RSA Transfers, net	0.2	1.1	1.6	1.6	1.6	1.6
Uncollectable Revenue	7.0	7.4	7.7	8.0	8.7	9.6
Total	48.5	50.8	52.9	54.8	57.1	60.5

Miscellaneous Revenue

- Miscellaneous Retail Revenue includes revenues from retail customers for services or programs that are not considered as part of “base rates” such as Green Power programs and Power Factor Charges.
- The “Other” category includes a broad range of income sources such as small property sales, suburban undergrounding, operating fees and grants, late payment fees, payments for damages to SCL property, transmission tower attachments, distribution pole attachments and account change fees.
 - The forecasts of these items are indexed to simple indicators such as inflation or number of accounts.
 - An \$18m Roy Street property sale is assumed in 2015. However, it is treated as an offset to CIP and, therefore, is not a direct rate driver and is not included in this category.
 - Miscellaneous small property sales assumed in the range of \$1-2m per year.
- Interest Income assumes cash holdings accrue interest at an annual rate of 1.5% on average.

Other Revenue Sources (\$M)	2015	2016	2017	2018	2019	2020
Misc Retail Revenue	3.9	4.0	4.1	4.2	4.3	6.9
Other	27.3	27.1	27.7	28.1	28.3	28.6
Interest Income	7.4	8.4	8.1	8.7	9.4	9.3
Total	38.6	39.4	39.9	41.0	42.0	44.9

Net Power Costs

Power Contracts

- BPA power and wheeling costs are based on values adopted in the 2013-2018 Strategic Plan, which assumed annual growth at about CPI inflation. Values for 2019 and 2020 were estimated assuming 2018 values growing at CPI inflation.
- No new resources acquired. Per the IRP, load growth is substantially offset by conservation and served with existing resources.
- No election of Priest Rapids Meaningful Priority.
- No costs associated with owned resources (e.g., Skagit, Boundary); these are categorized as O&M and CIP.

Power Contracts & Wheeling (\$M)	2015	2016	2017	2018	2019	2020
BPA	165.0	169.4	172.1	177.0	181.1	185.2
Priest Rapids	3.1	3.2	3.3	3.4	3.4	3.4
High Ross Contract	13.1	13.1	13.1	14.1	13.0	13.0
Grand Coulee	5.9	6.1	6.2	6.4	6.7	7.0
Lucky Peak	7.1	7.3	7.6	7.8	8.0	8.2
SPI Purchases	2.6	2.6	1.6			
Wind Resources	27.0	27.2	27.3	27.4	27.6	27.7
Columbia Ridge	6.1	6.2	6.3	6.5	6.6	6.7
King County West Point	2.0	2.0	2.1	2.1	2.2	2.3
Wheeling and Other	36.5	37.6	38.1	39.4	39.4	42.4
Total	268.4	274.8	277.6	284.1	287.9	295.9

Net Wholesale Revenue

- Planned Net Wholesale Revenue (or NWR budget) is a conservative planning value adopted by policy and intended to yield a low likelihood of RSA surcharges in future years.
- The assumed budgeted NWR is shown below both for the original Strategic Plan 2013-2018 as well as the Strategic Plan Update 2015-2020.

Net Wholesale Revenue Budget (\$M)

	2013	2014	2015	2016	2017	2018	2019	2020
Original Strategic Plan Budget (2013-2018)	90	85	85	75	70	64	N/A	N/A
Proposed Budget for Plan Update (2015-2020)	N/A	N/A	65	60	60	60	55	50

- A \$20m decrease in the net wholesale assumption in 2015 dramatically reduces the likelihood of a surcharge and increases transparency and consistency in rates. This

decrease would have the impact of increasing base rates in 2015 from 1.4% to 4.2% but decreasing the 2016 base rate change from 5.6% to 4.9%, thereby evening out the rate impacts in all the years of the updated plan. City Light selected \$65m as the 2015 target because it was the value that provided the smoothest rate path in 2015-2016.

- The total impact of reducing net wholesale revenue from the amounts assumed in the 2013-2018 Strategic Plan is only a slight increase in average annual rate increases, from 4.2% to 4.4%.

Power Revenues, Net

- City Light generates revenues from a handful of long-term power contracts. These revenues are projected to decline beginning in 2019 due to the phasing out of a look-back credit from BPA's Residential Exchange program.
- Power Marketing Revenues are from sales of auxiliary services associated with generation and transmission assets.

Power Revenues, Net (\$M)	2015	2016	2017	2018	2019	2020
Power Contract Revenue	16.6	16.5	16.3	16.0	14.7	10.3
<u>Power Marketing, Net</u>	<u>11.1</u>	<u>9.6</u>	<u>9.2</u>	<u>8.4</u>	<u>8.5</u>	<u>6.2</u>
Total	27.7	26.0	25.5	24.5	23.2	16.5

Retail System Load / Retail Sales

- Based on the May 2013 official long term load growth forecast, which shows retail sales growing at an average rate of 0.3% per year from 2015 to 2020.
- Load growth is mostly in the commercial sector. The effects of the recent recession and slow economic recovery, as well as efficiency improvements, reduce growth in the industrial and residential sectors.
- Assumes utility-driven conservation levels of 14 aMW in savings per year.

Retail Sales						
GWh	2015	2016	2017	2018	2019	2020
Residential	3,158	3,157	3,140	3,130	3,118	3,114
Small and Medium Commercial	3,777	3,808	3,810	3,826	3,854	3,902
<u>Large Commercial and High Demand</u>	<u>2,633</u>	<u>2,647</u>	<u>2,639</u>	<u>2,640</u>	<u>2,657</u>	<u>2,689</u>
Total	9,567	9,611	9,588	9,596	9,629	9,705
Annual Change						
Residential		0.0%	-0.5%	-0.3%	-0.4%	-0.1%
Small and Medium Commercial		0.8%	0.1%	0.4%	0.7%	1.2%
Large Commercial and High Demand		0.5%	-0.3%	0.0%	0.6%	1.2%