



Q2 Status Report on Rate Stabilization Account

Presentation to Energy, Technology & City Rights Committee

July 20, 2011

Rate Stabilization Account ("RSA") History

- Drivers

- Exceptionally low net wholesale revenue ("NWR") received in 2009 and expected in 2010 due to low precipitation, and then low gas & electric wholesale prices

- Initial Responses

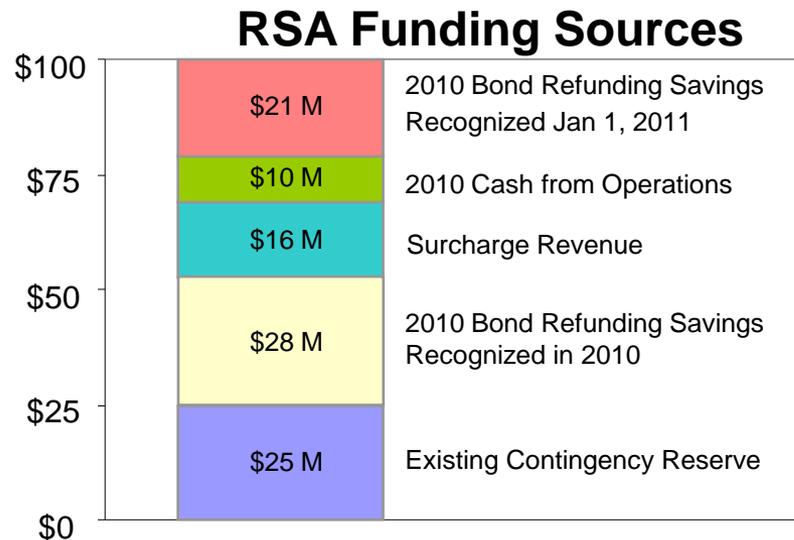
- City Light cut budgets, deferred needed projects

- Solution

- City Light/Mayor proposed an automatic rate adjustment mechanism October 2009. Not adopted due to rate volatility concerns.
- Current RSA structure, which buffers impacts to ratepayers, was developed by Council staff from Council direction, and was adopted in March 2010.

RSA History (continued)

- Created to help buffer variations in the Utility's revenues from surplus power sales
 - Surplus power sales have ranged from 8% to 19% of revenues in past 5 years
 - Without RSA, must curtail services or suffer poor financial performance that imperils credit rating
- RSA fully funded to \$100 million by 1/1/2011:



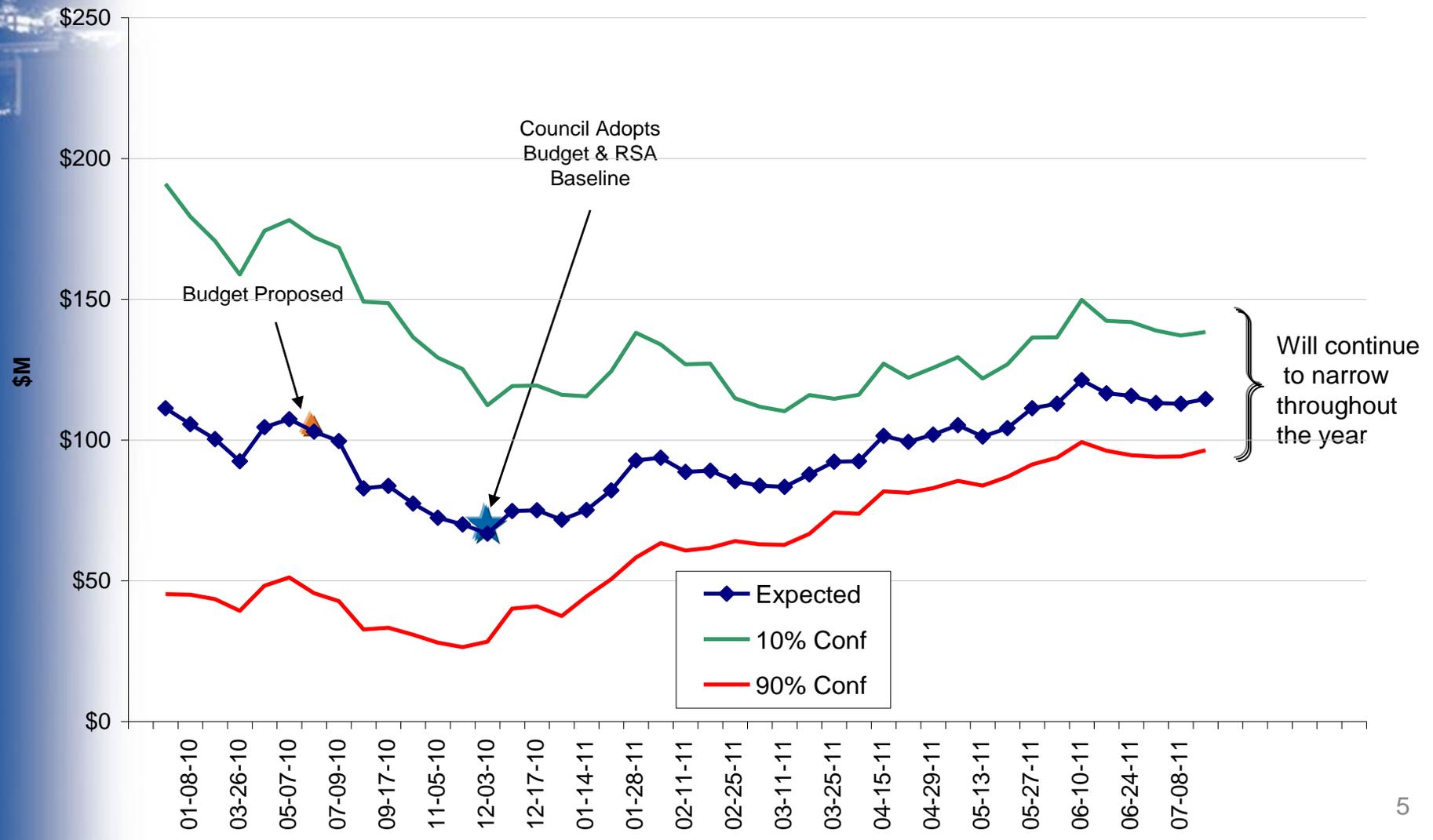
RSA Operation

- Set expected net wholesale revenue annually
- By Ordinance, the expected NWR is set by the average of actual NWR since 2002
- Quarterly:
 - If Actual NWR > expected, deposit excess in RSA
 - If Actual NWR < expected, withdraw shortfall from RSA
- Surcharges help replenish RSA if it falls below minimum levels

< \$90 million	Automatic 1.5% surcharge
< \$80 million	Automatic 3.0% surcharge
< \$70 million	Automatic 4.5% surcharge
< \$50 million	Council must identify plan to replenish the RSA to \$100 million within 12 months

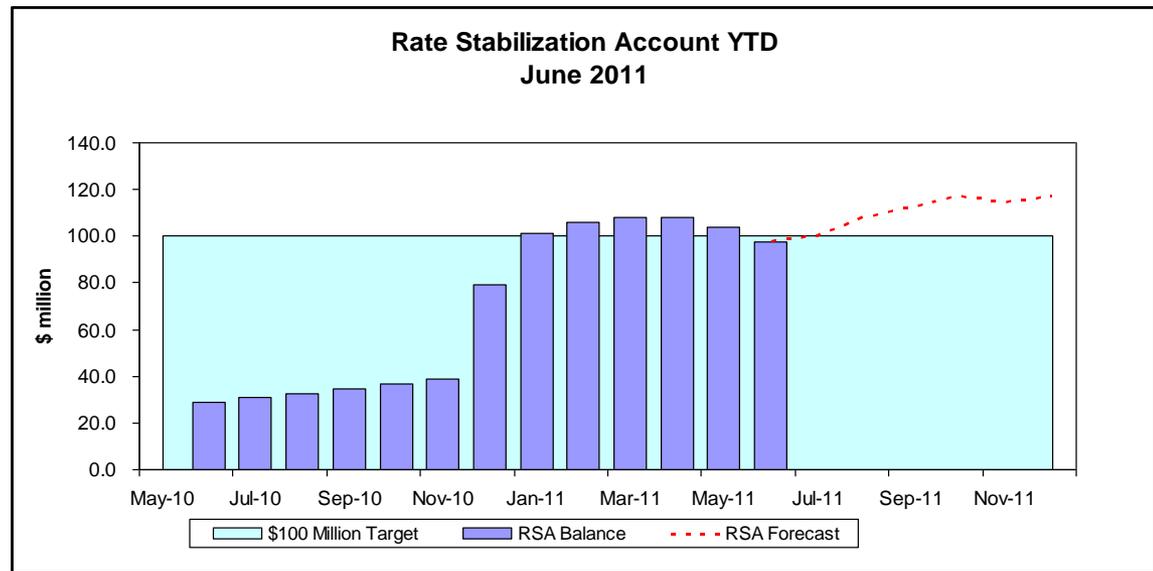
2011 Net Wholesale Revenue Outlook: Above Expectations, With Increasing Confidence

CHER11 07-15-11



RSA Outlook for 2011 is Positive

- \$112.9M current outlook for NWR vs. \$96.8M expected results in \$16.1M contribution to RSA
 - Q2 below expectations only due to timing of revenues
- RSA balance of about \$116.9M expected at year-end



- No 2011 surcharge anticipated

Conclusions

- RSA functioning well overall
 - 2011 outlook positive, with increasing confidence
 - No 2011 RSA surcharge anticipated
 - Net wholesale revenue outlook for future years still weak
 - Could result in RSA surcharges
 - 2012 outlook looking better due to adding funding of RSA in 2011
 - Continuing need to address structural reduction in volume resulting from changes in BPA contract and to adopt less optimistic volume assumptions
 - Options to be considered in upcoming Financial Policy review and Strategic Plan



Appendix

Net Wholesale Revenue and RSA Baseline (\$M):

Gap Between Blue Bars (Assumed for Budget purposes) and Green Line (our current outlook) demonstrates the need to address reductions in volume from contract changes and need for less optimistic assumptions

