

**City Light**  
**Natural Gas Price Forecast Update**  
**Impact on Wholesale Revenues and RSA**

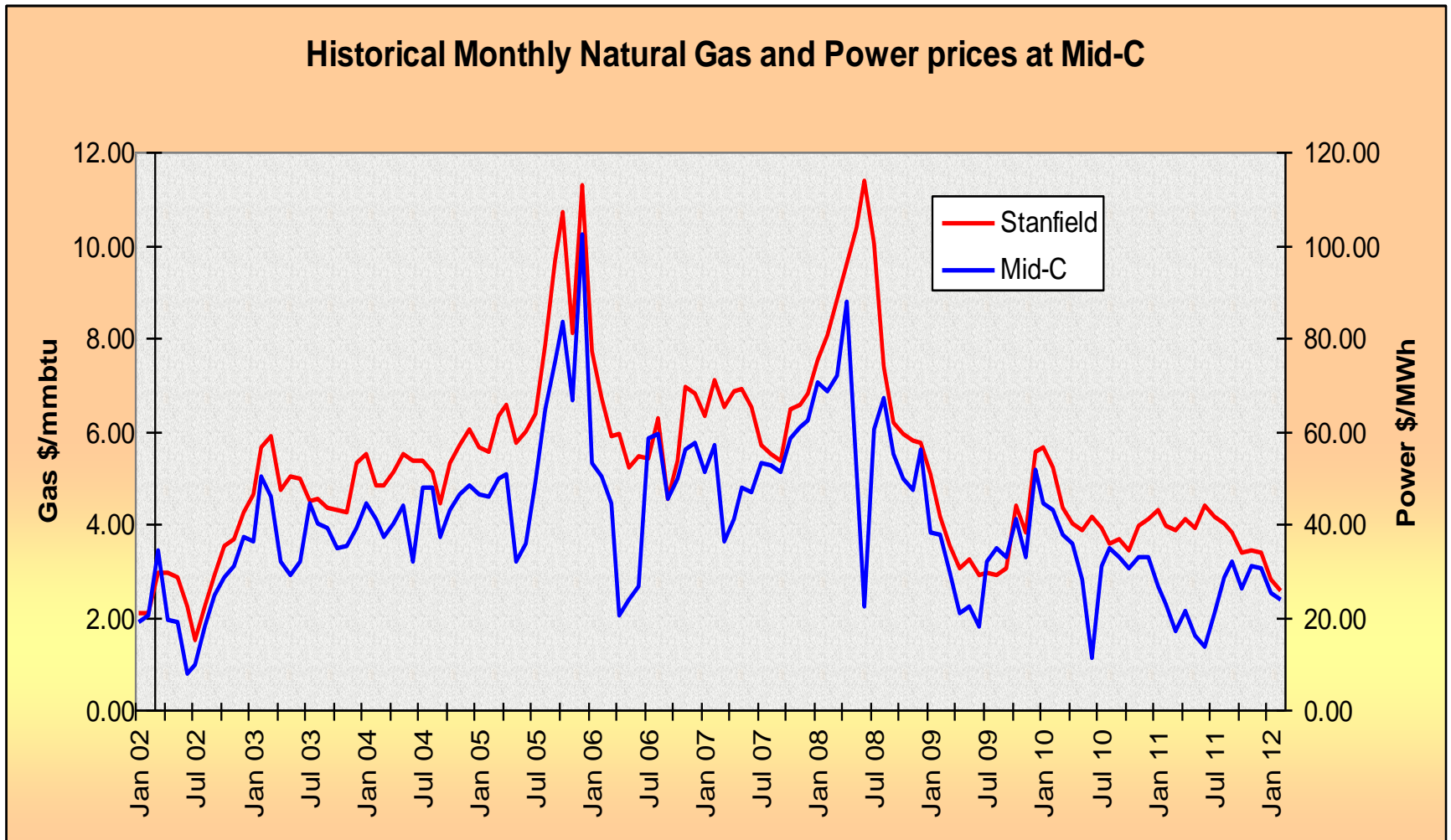
Presentation to Seattle City Council  
Energy and Environment Committee

April 10, 2012

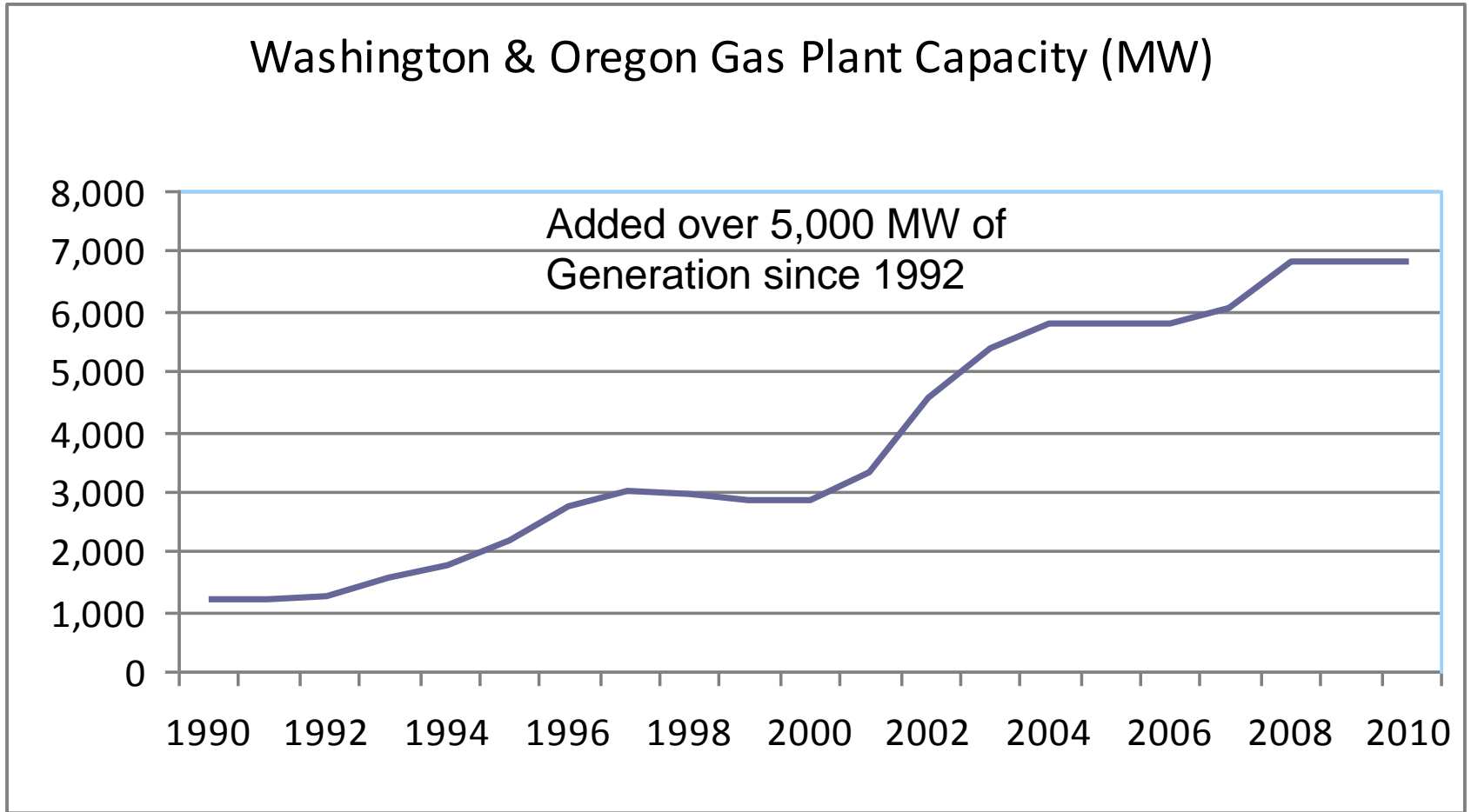
# Presentation Overview

1. Relationship of Natural Gas and Wholesale Power Prices
2. Historical Look at Net Wholesale Volumes and Prices
3. Past and Updated Natural Gas Price Projections
4. Projected Impact on Rates and Rate Stabilization Account
5. Question and Answers

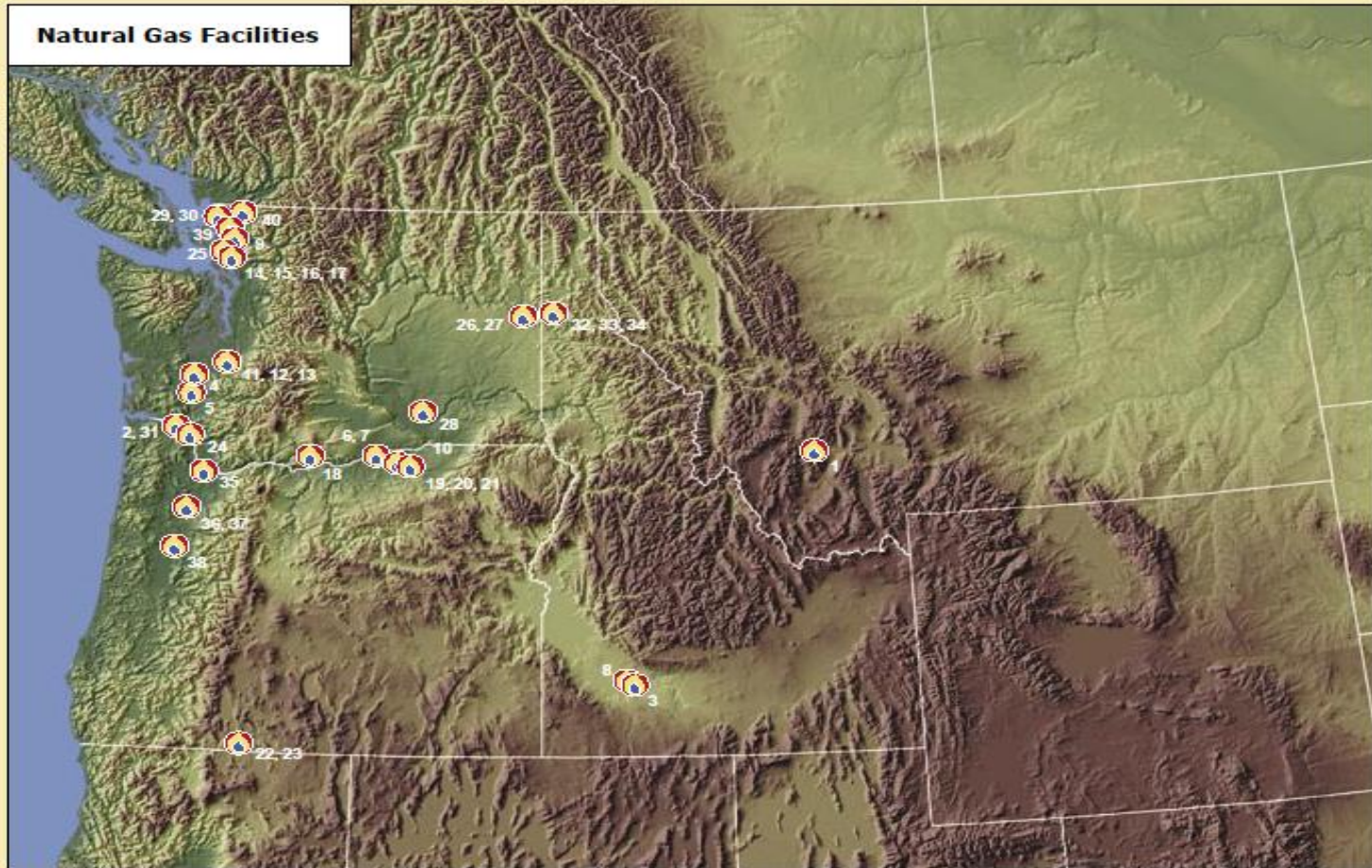
# Natural Gas & Power Price Relationship



# Natural Gas Generating Plant Additions

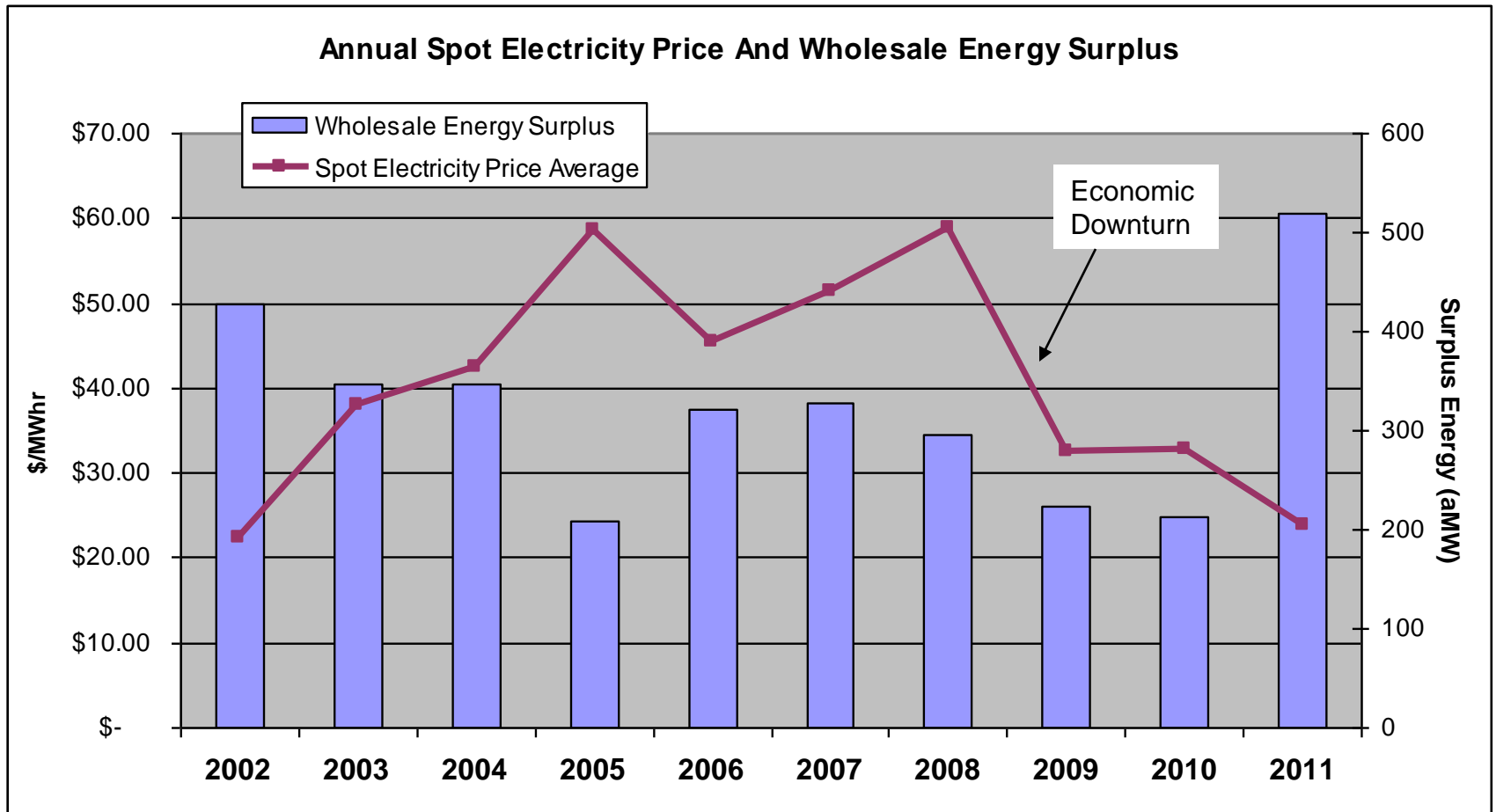


# Northwest Natural Gas Generating Plants



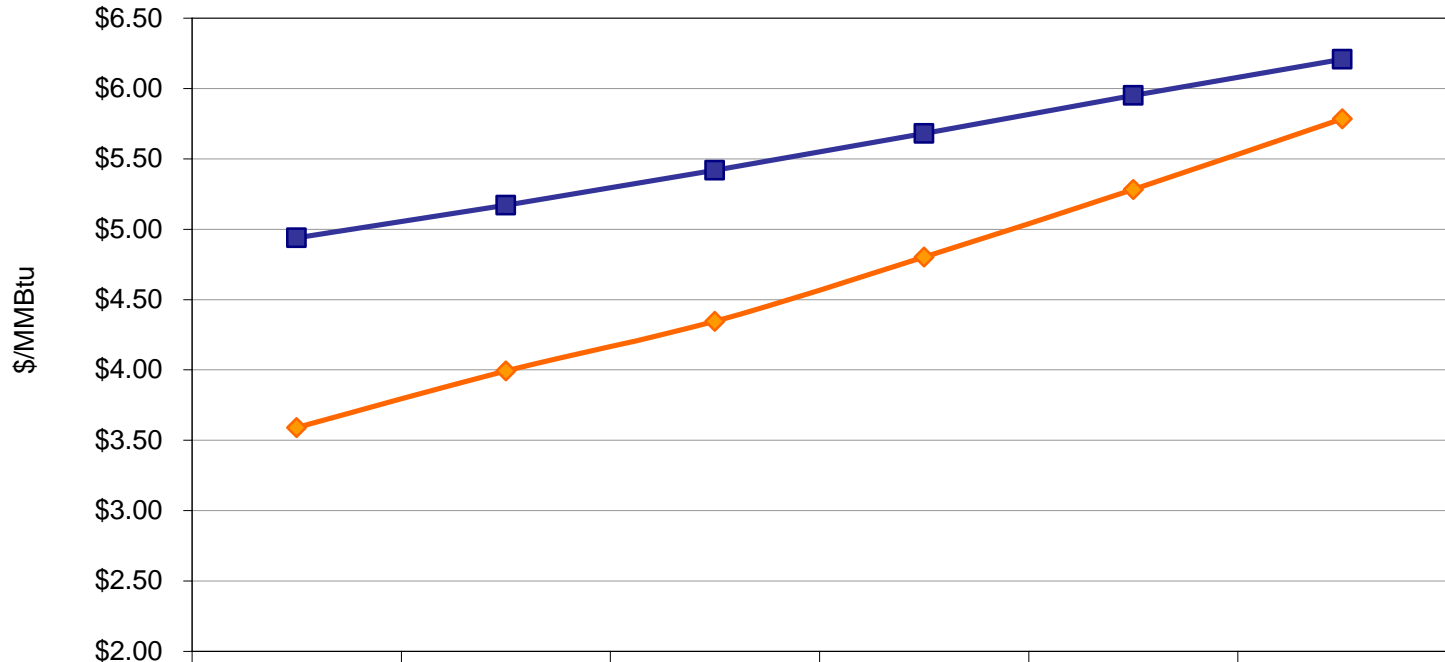
<http://www.nwcouncil.org/maps/power/print.pdf>

# City Light Historical Net Wholesale Sales Volume and Prices



# Updated Natural Gas Price Projections

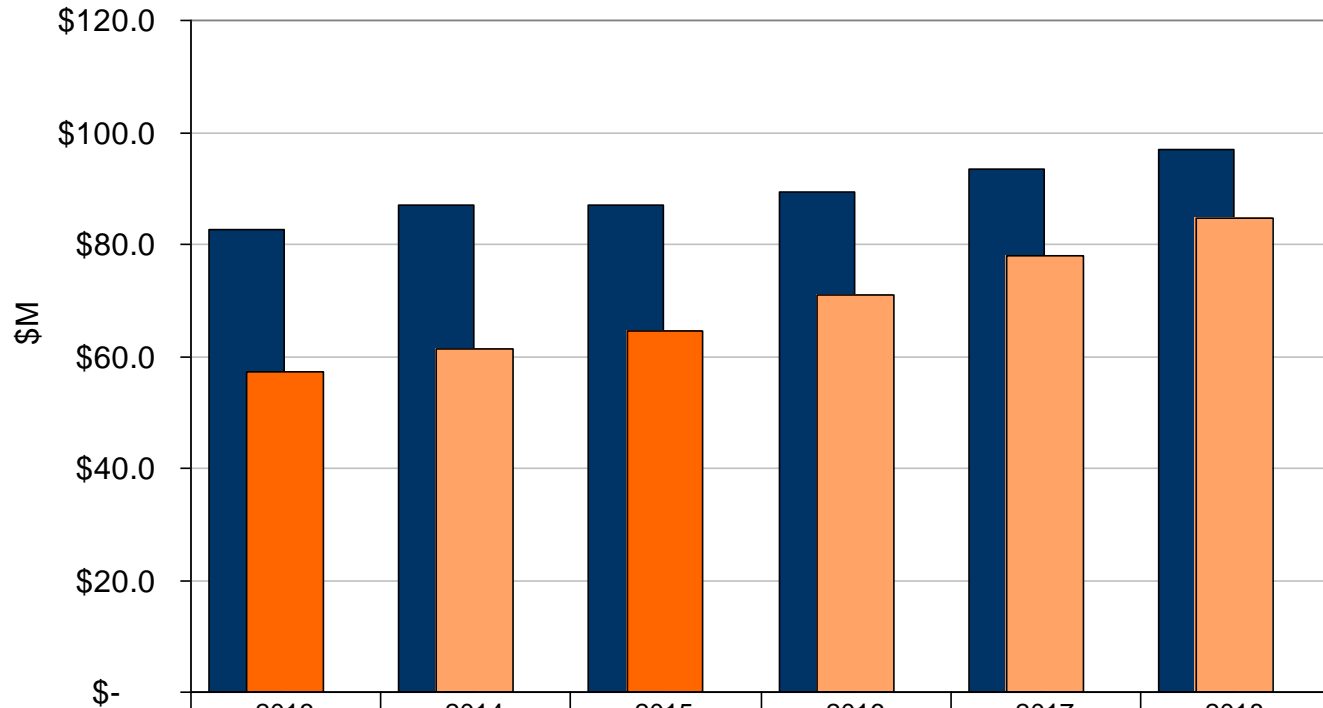
## SCL Gas Price Forecast



	2013	2014	2015	2016	2017	2018
■ Draft Strategic Plan	\$4.94	\$5.17	\$5.42	\$5.68	\$5.95	\$6.21
◆ Lower Gas Price Outlook	\$3.59	\$3.99	\$4.34	\$4.80	\$5.28	\$5.78
Difference	\$(1.35)	\$(1.18)	\$(1.07)	\$(0.88)	\$(0.67)	\$(0.42)

# Revised Natural Gas Price Forecast Impact on Net Wholesale Revenues

**Net Wholesale Revenue Forecast**



	2013	2014	2015	2016	2017	2018
Forecast from Draft Strat. Plan	\$82.8	\$87.1	\$86.9	\$89.5	\$93.4	\$96.8
With Lower Price Outlook	\$57.3	\$61.2	\$64.4	\$70.9	\$77.8	\$84.8
Difference	(\$25.5)	(\$25.9)	(\$22.5)	(\$18.5)	(\$15.6)	(\$12.0)



# Impact on Expected RSA Surcharge

The decrease in the Net Wholesale Revenue forecast significantly increases the expected RSA surcharges given the current assumptions in the Baseline of the Draft Strategic Plan.

## Expected RSA Surcharge/(Credit)

	2013	2014	2015	2016	2017	2018
<b>Draft Strategic Plan</b>						
RSA Ending Balance \$M	\$90.6	\$103.0	\$107.8	\$125.6	\$128.4	\$129.1
Forecasted Surcharge*	1.0%	1.2%	0.0%	0.0%	0.0%	(2.6%)
<b>With Lower Prices</b>						
RSA Ending Balance \$M	\$63.5	\$69.6	\$75.7	\$91.2	\$111.8	\$128.1
Forecasted Surcharge*	3.5%	4.2%	3.4%	2.2%	1.2%	0.0%

\* Represents weighted annual average surcharge across 4 quarters, will not match 1.5%, 3%, 4.5% RSA surcharges.

# Sensitivity Analysis

## Natural Gas Prices Remain Depressed

### RSA Impact for Slow Recovery Gas Price Scenario

	2013	2014	2015	2016	2017	2018
Slow Recovery Gas Price Scenario \$/MMBtu	\$3.34	\$3.42	\$3.50	\$3.74	\$4.14	\$4.56
Annual Net Wholesale Revenue \$M	\$48.7	\$51.8	\$51.2	\$54.0	\$59.7	\$65.5
RSA Baseline \$M	\$90.0	\$85.0	\$85.0	\$75.0	\$70.0	\$64.0
Shortfall \$M	\$41.3	\$33.2	\$33.8	\$21.0	\$10.3	(\$1.5)
RSA End of Year Balance \$M	\$57.0	\$55.3	\$55.2	\$70.4	\$88.2	\$105.1
Forecasted RSA Surcharge	3.8%	4.5%	4.5%	4.5%	3.2%	1.5%

# Sensitivity Analysis

Natural Gas Price Increase Required to Avoid RSA Surcharges  
included in Draft Strategic Plan Baseline

## Approximate Gas Market Prices Needed to Avoid Surcharges

(\$/MMBtu)	2013	2014	2015	2016	2017	2018
New Price Forecast	\$3.59	\$3.99	\$4.34	\$4.80	\$5.28	\$5.78
Gas Price Needed to Meet RSA Baseline (i.e. no surcharges)	\$5.58	\$5.37	\$5.58	\$5.05	\$4.81	\$4.51
Increase Needed	\$1.99	\$1.38	\$1.23	\$0.25	(\$0.47)	(\$1.27)

# Questions and Answers