

Financial Baseline Status

Presentation to City Light Review Panel

October 19, 2011

Overview

- Updated Baseline Results
- What's Changed?
- Main Drivers
- Sensitivity analysis
- Industry Comparison

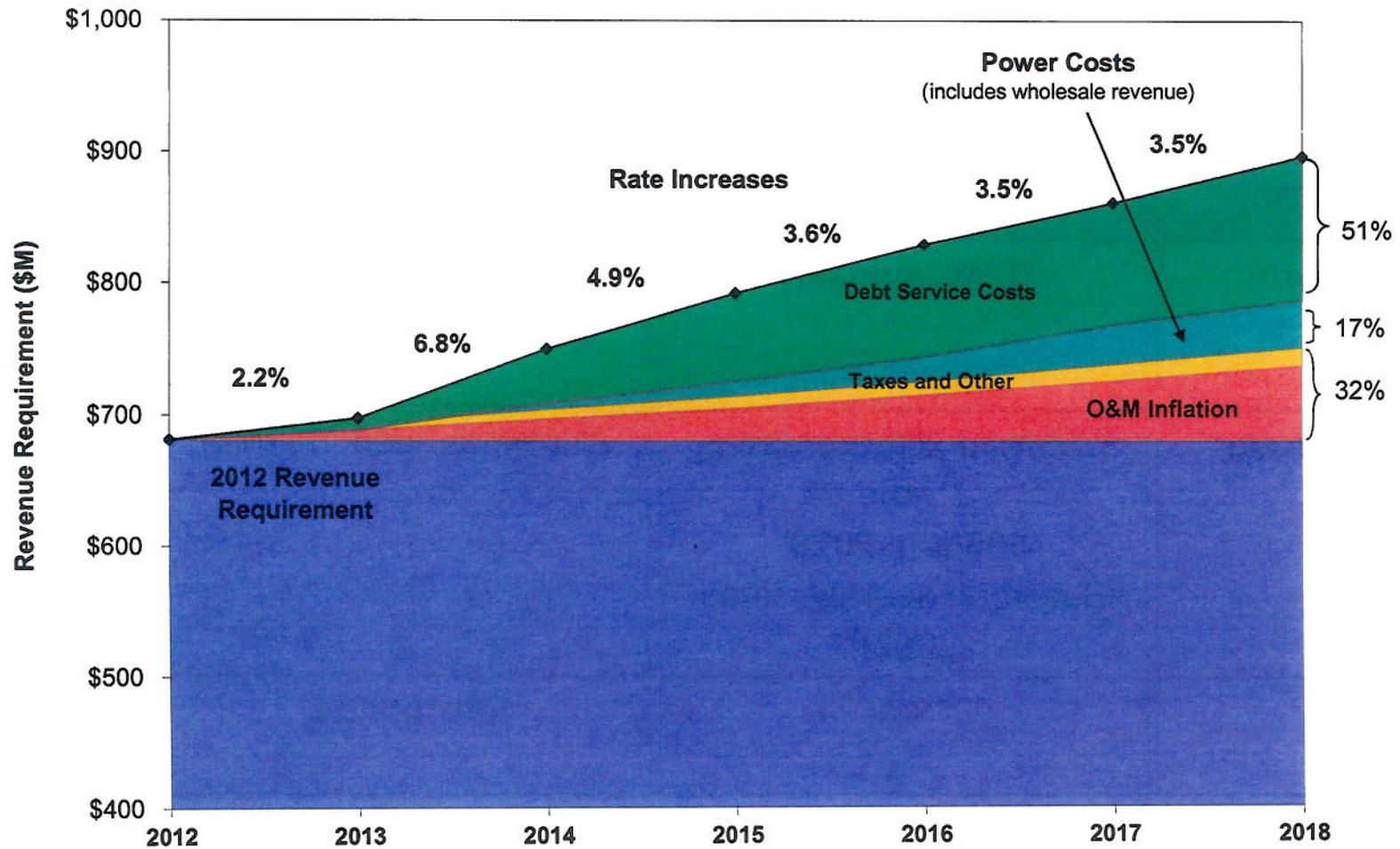
Updated Baseline Results

- January 2011: 4.1% for 2011-2016
- Recently: 5.3% for 2013-2018
- Now: 4.1% for 2013-2018

What's Changed?

Category	Amount	Impact on Rates
<p><u>Lower Earnings on Cash Holdings</u></p>	<p>(~\$30 Million)</p>	<p>↑</p>
<p><u>Higher Net O&M Costs</u></p> <ul style="list-style-type: none"> ▪Up: \$10M increase in 2012 budget (higher COLAs, pension/medical costs). ▪Down: Partially offset by higher capitalized labor overheads & bond funding environmental cleanup costs 	<p>~\$40 Million</p>	<p>↑</p>
<p><u>Higher Debt Service Requirements</u></p> <p>1.8 times the increase in debt service (includes coverage), increased with:</p> <ul style="list-style-type: none"> ▪Up: \$270M for CIP: <ul style="list-style-type: none"> ▪Sustainable spending levels in out-years, increasing labor applied to CIP, Consistent inflation assumptions with O&M ▪Down: \$100M lower Programmatic Conservation Expenses (down from 16 to 14 aMW) ▪Up: \$30M for the policy decision to bond-fund environmental cleanup costs ▪Up: \$60M for developing a Surety Bond Replacement Fund ▪Up: \$50M for additions to the bond reserve fund to meet bond reserve requirements 	<p>~\$60 Million</p>	<p>↑</p>
<p><u>Lower Expected Cost of Purchased Power</u></p> <ul style="list-style-type: none"> ▪Down: ~\$160M less for renewable energy (reliance on RECS) ▪Down: ~\$55M lower BPA costs as result of the new contract effective Oct, 2011. ▪Up: ~\$25M reduced power marketing revenues, wheeling costs & other misc. 	<p>(~\$240 Million)</p>	<p>↓</p>

Drivers of the 4.1% average increase



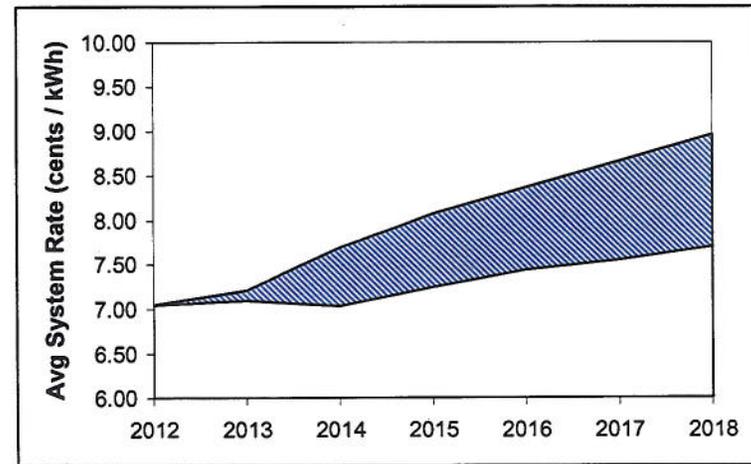
Sensitivity Analysis:

- Rate forecast significantly affected by our assumptions for three factors:

Factor	Our Assumption	Alternative	Impact
Load Growth	0.6% annually	1.5% annually (experienced in 2004-2009)	↓ 0.9%
Net Wholesale Revenue	\$105M in 2013 declining to \$96M in 2018 (Based on average since 2002)	\$140M (as seen in 2006)	↓ 1%
Inflation	~4%	CPI, or ~2%	↓ 0.7%
Total Impact			↓ 2.6%

Those Three Assumptions Significantly Affect Rates

- With more optimistic assumptions, the 4.1% average increase would drop 2.6% to 1.5% annually.



- Residential bill comparison:

	2011	2012	2013	2014	2015	2016	2017	2018
Baseline Case	\$53.37	\$55.08	\$56.29	\$60.09	\$63.04	\$65.32	\$67.62	\$69.96
Optimistic Case (1.5% annually from 2012)	\$53.37	\$55.08	\$55.91	\$56.74	\$57.60	\$58.46	\$59.34	\$60.23

Industry Data

- Lack of published rate information for 2013-18.
 - Requested data from Large Public Power Entities
- Regional utilities

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. Grant PUD			6%	8%=\$6 monthly residential	8%	8%	8%	Not available		
2. Tacoma Power			5.8%=\$5 monthly residential	5.8%=\$5 monthly residential	Not available					
3. SnoPUD	3.5%		0.9%		Not available					
4. Puget		2.8%		Proposed 8.3%	Not available					
5. Clark PUD		5.7%		Proposed 4.9%	Not available					
6. Portland General Electric	5.6%		4.2%		Not available					
7. Cowlitz PUD				17-18%=\$16 monthly residential	Not available					

- Nationally, electric rates increased ~5% annually in past 5 years

Next Steps

- Publishing Final Baseline Document in November

