Seattle City Light

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2021-2026 Strategic Plan Financial Forecast

December 5, 2019

EXECUTIVE SUMMARY

This document details the financial assumptions behind City Light's draft 2021-2026 Strategic Plan rate path as of December 5, 2019.

The 2021-2026 six-year average rate increase is 2.9%. Average rates are derived by dividing the revenue requirement by retail sales and the increase is attributable to both increasing revenue requirement and decreasing retails sales.

RATE INCREASE SUMMARY

	2020*	2021	2022	2023	2024	2025	2026	AVG
Revenue Requirement	950.4	952.3	979.6	1,007.1	1,041.1	1,033.8	1,052.8	
Annual Increase		0.2%	2.9%	2.8%	3.4%	-0.7%	1.8%	1.7%
Retail Sales GWh	9,230	8,912	8,844	8,769	8,720	8,632	8,580	
Annual Change		-3.4%	-0.8%	-0.8%	-0.6%	-1.0%	-0.6%	-1.2%
Average Rate, ¢/kWh	10.32	10.69	11.08	11.48	11.94	11.98	12.27	
Annual Increase		**3.6%**	**3.6%**	**3.7%**	**4.0%**	**0.3%**	**2.5%**	**2.9%**

**The 2020 revenue requirement is the 2020 adopted revenue requirement of $967.5M adjusted downward for the impacts of the 2019 BPA Passthrough. The 2020 retail sales are the value used to develop 2020 adopted rates. The 2020 average rate is based on current 2020 rates and consumption profiles based on the most recent retail sales forecast.*

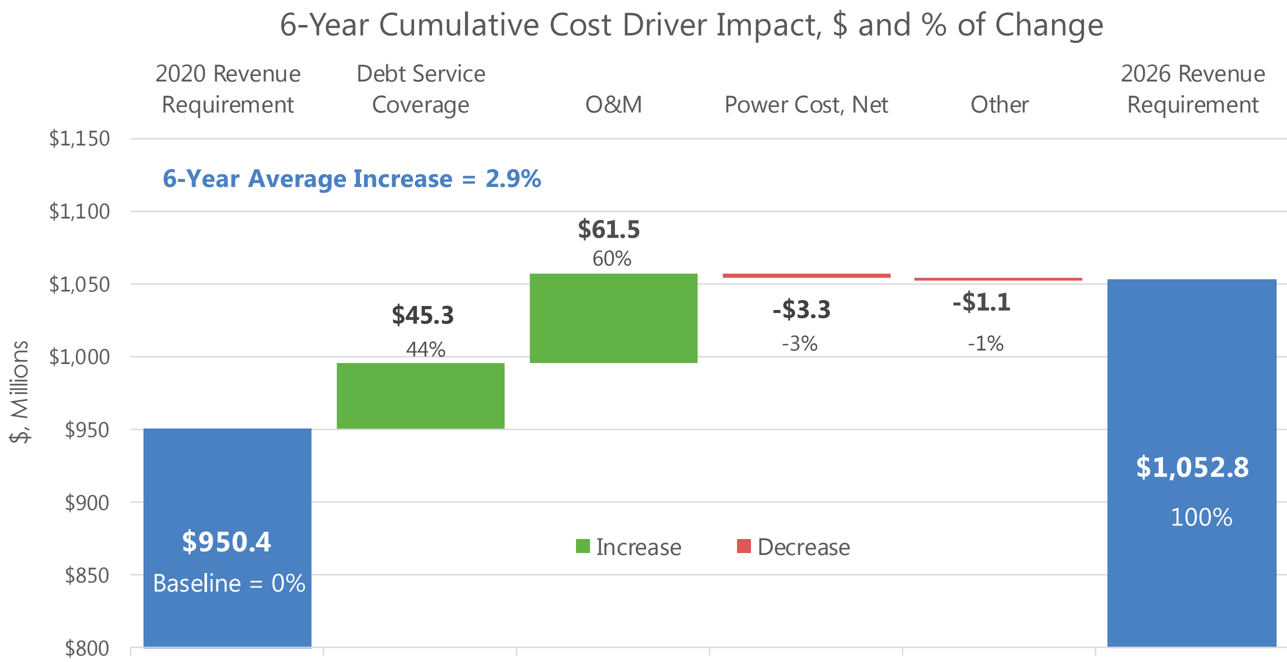
Below is a table of bill impacts assuming each customer receives the annual rate increase noted above and maintains a consistent level of consumption. These impacts are examples only and will change after the retail rate design process is completed. Customers who decrease their consumption through energy efficiency measures will experience smaller bill impacts.

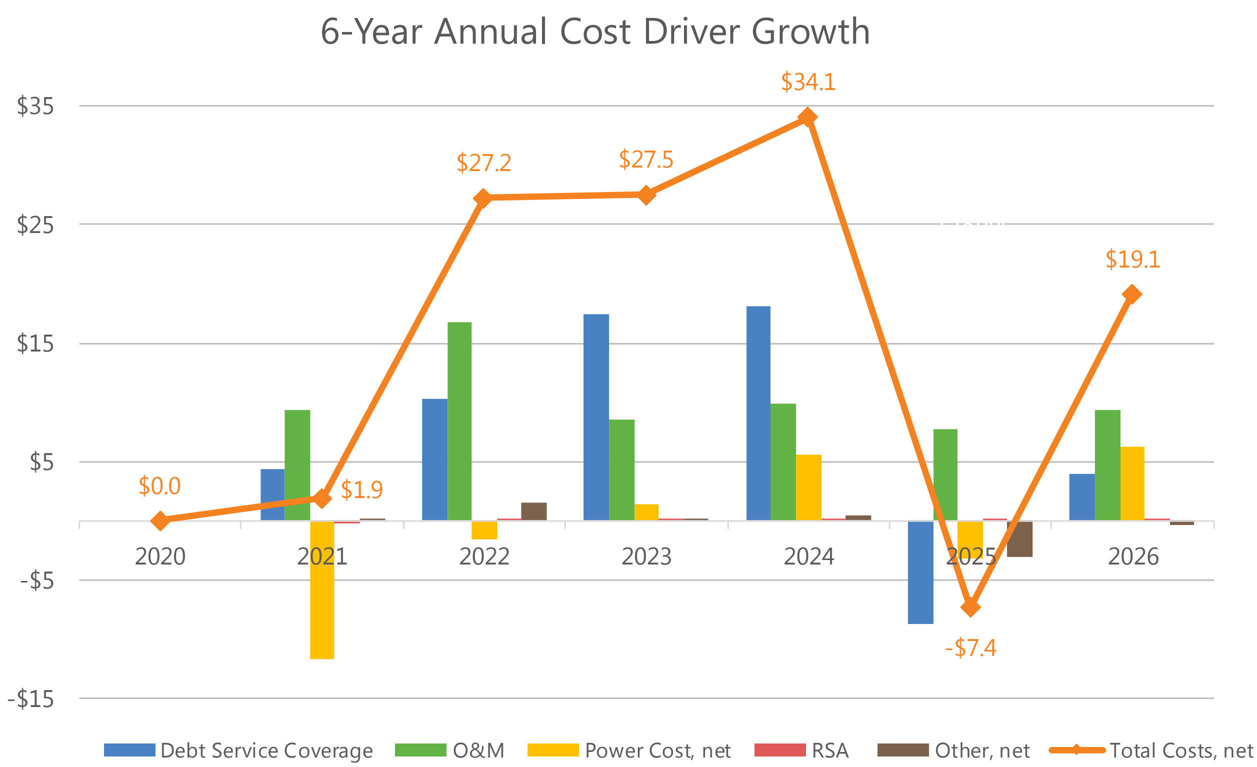
CUSTOMER BILL IMPACT EXAMPLES

	Monthly Bill	Monthly Increase						
	2020	2021	2022	2023	2024	2025	2026	AVG
Residential-typical	$75	$2.66	$2.81	$2.95	$3.28	$0.27	$2.13	$2.35
UDP Residential-typical (40%)	$30	$1.06	$1.12	$1.18	$1.31	$0.11	$0.85	$0.94
Small Commercial-Car Wash	$451	$16	$17	$18	$20	$2	$13	$14
Medium Commercial-Retail Store	$7,219	$257	$272	$286	$318	$26	$206	$228
Large Industrial-Stone	$22,864	$815	$863	$905	$1,007	$82	$652	$721
Large Commercial-Hospital	$91,851	$3,273	$3,466	$3,637	$4,045	$328	$2,619	$2,895
Large Commercial-Education	$1,932,950	$68,869	$72,941	$76,533	$85,132	$6,894	$55,123	$60,915

The following charts and tables summarize the drivers of the change in revenue requirement over 2021-2026.

RETAIL REVENUE REQUIREMENT DRIVERS





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City Light financial policy calls for retail rates to be set so the utility has enough revenue net of expenses to cover annual debt service obligations by 1.8 times. Debt service coverage is defined as debt service plus an additional 80% of debt service.

RETAIL REVENUE REQUIREMENT SUMMARY

$, Millions	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Revenue Requirement	952.3	979.6	1,007.1	1,041.1	1,033.8	1,052.8
Debt Service Coverage						
Debt Service	236.7	242.4	252.1	262.2	257.3	259.5
Additional 0.8x Coverage	189.4	194.0	201.7	209.8	205.9	207.6
Operations & Maintenance (O&M)						
Baseline 2020 O&M	305.7	305.7	305.7	305.7	305.7	305.7
Inflation and REC Growth*	9.0	23.8	32.2	42.1	49.7	59.0
Strategic Plan O&M Adjustments	(2.0)	-	-	-	-	-
Net Power Costs						
Power and Wheeling Contracts	261.7	247.8	248.5	254.1	250.7	256.9
Net Wholesale Revenue (NWR)	(50.0)	(40.0)	(40.0)	(40.0)	(40.0)	(40.0)
Power Related Revenues, Net	(13.8)	(11.5)	(10.8)	(10.7)	(10.6)	(10.5)
Other						
Taxes, Payments and Uncollectibles	53.8	57.2	58.7	60.5	60.3	61.5
Miscellaneous Revenue	(38.1)	(39.8)	(41.1)	(42.5)	(45.3)	(46.9)

** Inflation on existing O&M, and incremental renewable energy credit (REC) investments to meet I-937 requirements.*

MAJOR DRIVERS OF EACH CATEGORY

Debt Service Coverage	Debt service on future debt issues is larger than reductions in debt service from retirement of existing debt. The decrease in 2025 reflects a large drop in the repayment schedule for existing debt.
O&M	Inflation growth applied to 2020 budget levels plus new REC costs from Stateline Wind starting in 2022 (City Light will no longer purchase power but will purchase RECs, which are recorded as O&M).
Net Power Costs	Decreasing costs related to Stateline Wind and High Ross contracts partially offset by BPA costs increasing 1.8% per year on average. NWR reduced in 2022 to reflect impact of Stateline contract expiring.
Other	Miscellaneous revenue (including small cell pole attachments) increasing slightly more than taxes, payments and uncollectibles, which grow proportional to the revenue requirement

INTRODUCTION

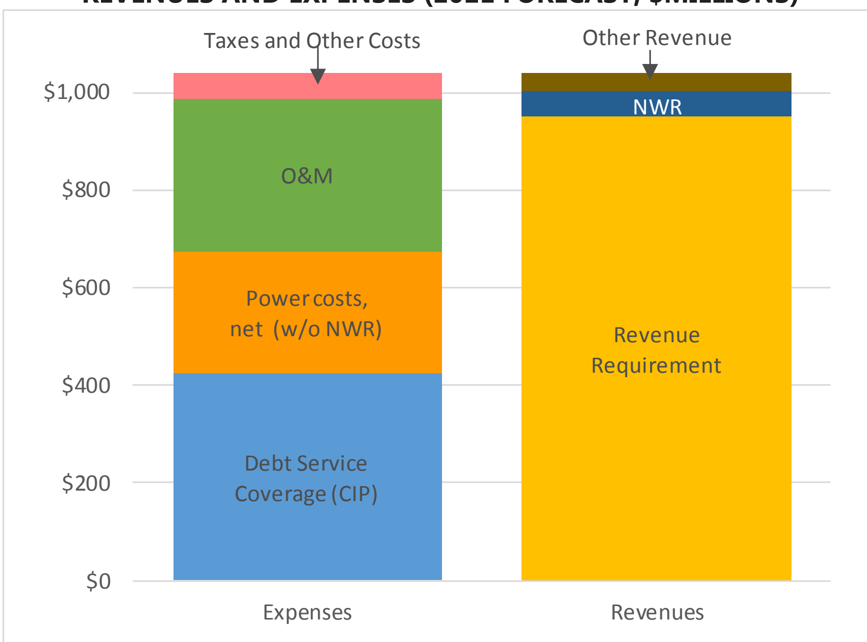
The 2021-2026 Strategic Plan builds on the 2019-2024 Strategic Plan Update (also called the 2018 Strategic Plan) and extends the horizon an additional two years to 2026.

This document details the assumptions that determine the average retail rate path for the years 2021-2026. Average retail rates are not actual billed rates but are the ratio of the revenue requirement to retail sales and represent the average impact to customer bills assuming their consumption is constant.

$$average\ rate \left(\frac{\$}{kwh}\right) = \frac{revenue\ requirement\ (\$)}{retail\ sales\ (kwh)}$$

The revenue requirement is the amount of retail revenue that must be collected to balance revenue with expenses given financial policies. The chart below illustrates how the revenue requirement is sized to meet expenses.

REVENUES AND EXPENSES (2021 FORECAST, $MILLIONS)



Following is a short description of each primary component of the revenue requirement. These are discussed in detail in the following sections of this document.

Debt Service Coverage

- The cost of debt funded capital investments (including deferred expenses such as programmatic conservation and superfund remediation) as recovered over time.
- Per policy, debt service coverage is equal to 1.8 times the annual debt service obligation.
- The additional funds in debt service coverage above those needed to pay principal and interest obligations (the remaining 0.8 times) cash-fund a portion of the current year capital requirements, so they are not all debt financed.

Operations & Maintenance (O&M)

- Includes expenses for all O&M costs.
- All non-capitalized labor costs are included in this category.
- Includes inflation assumptions, additional program funding requirements, as well as mitigating cost reductions.

Power, Net

- Purchased power costs and wheeling (purchased transmission) costs, net of power revenues.
- Includes revenues from surplus power sales, also called net wholesale revenue.
- Does not include costs of operating owned generation (e.g. Skagit, Boundary hydro projects), these are part of O&M.

Other

- Includes taxes, franchise payments and uncollectable revenue, net of miscellaneous revenues.

This document concludes with a discussion of the retail sales forecast, which is the denominator in the average rate formula.

DEBT SERVICE COVERAGE (CIP, DEFERRED O&M AND BONDS)

Debt service coverage represents the cost of capital spending, as recovered over time. Net capital requirements are comprised of the capital improvement program (CIP) plus expenses deferred (such as programmatic conservation and superfund remediation), less capital contributions, which are payments from outside sources that offset capital expenses.

Net Capital Requirements = CIP + Deferred O&M – Capital Contributions

Net capital requirements are not a direct component of the revenue requirement but determine the amount of debt (bonds) that must be issued. The principal payments on outstanding debt and associated interest expense make up debt service.

City Light's debt service coverage policy (established by Resolution 31187) calls for setting rates to yield sufficient revenue net of expenses to cover annual debt service obligations by 1.8 times. Since the additional 0.8x required for debt service coverage is not an actual expense, these funds are typically allocated to City taxes[1] and current year capital expenditures, which reduces the size of future bonds.

The capital expenditures forecast is based on the 2020-2025 CIP Plan that was adopted in 2019 for the 2020 budget process. It differs from the CIP Plan (budget) in that the timing of spending is adjusted to reflect projected cash outflows, and amounts are reduced by a 10% assumed under-expenditure. For 2026, a $287 million placeholder value was used, which will inform the development of the 2026 CIP budget. Capital expenditures also includes deferred O&M, which is treated like CIP. Deferred O&M drops in 2021 because payments related to the High Ross treaty end in 2020.

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[1] Taxes paid to the City of Seattle are considered junior lien to debt service. They are not included in the taxes category when calculating the revenue requirement.

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CAPITAL EXPENDITURES FORECAST

$ Millions	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
2020-2025 Adopted CIP	299.1	354.5	348.4	334.6	321.8	313.9	
2026 Placeholder							286.7
Deferred O&M	43.6	34.6	33.5	36.6	36.6	40.3	40.3
Total Capital Expenditures	**342.7**	**389.1**	**381.9**	**371.2**	**358.4**	**354.2**	**327.0**

The next table summaries capital requirements and funding sources. Capital contributions include third-party funding for capital expenses such as service connections and reimbursements for certain transportation projects and are included as a credit to total capital requirements. Capital funding from operations reflects cash drawdowns and may represent net operating proceeds from the current or previous year(s). Bond issuances totaling about $1.3 billion to support 2020-2026 capital requirements will bring total outstanding debt to just above $3.0 billion by 2026.

Per financial policy, the six-year CIP should be funded with at least 40% operating cash (less than 60% debt funding). The current forecast expects that CIP funding target to be achieved.

CAPITAL REQUIREMENTS AND FUNDING

$, Millions	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Capital Requirements, net							
CIP	299.1	354.5	348.4	334.6	321.8	313.9	286.7
Deferred O&M	43.6	34.6	33.5	36.6	36.6	40.3	40.3
Capital Contributions	(52.3)	(49.5)	(50.4)	(48.1)	(46.8)	(46.8)	(46.8)
Total	**290.3**	**339.6**	**331.5**	**323.1**	**311.7**	**307.4**	**280.2**
Capital Funding							
Operations	47.1	155.7	134.7	139.2	141.7	152.4	132.2
Bond Proceeds	243.3	183.9	196.8	183.9	170.0	155.0	148.1
Total	**290.3**	**339.6**	**331.5**	**323.1**	**311.7**	**307.4**	**280.2**
Avg 6-Year Debt Funding %[1]	**60%**	**55%**	**55%**	**55%**	**54%**	**55%**	**56%**
Total Debt Outstanding	**2,700**	**2,767**	**2,841**	**2,895**	**2,940**	**2,969**	**3,010**

[1] *Percent of capital spending (net of contributions) funded with bond proceeds, forward looking (i.e., 2020 = avg 2020-2025)*

Capital requirements determine the size of future bond sales and resulting debt service. The bond size shown in the table below is slightly higher than bond proceeds shown in the table above to account for issue costs and required deposits into the bond reserve fund. Per financial policy, debt service has a 1.8x impact on the revenue requirement. Most existing debt was issued in the last 10 years with 25-30-year terms and level debt service, which is why debt service on these bonds is decreasing only slightly. The expected annual debt issues over the next 6 years are significantly lower than the previous six years. However, debt outstanding and associated debt service obligations are expected to increase over the next six years.

BOND SALES AND DEBT SERVICE, $MILLIONS

		Debt Service						
	Bond Size	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Existing[1]		228.1	222.3	216.5	213.0	210.7	194.5	186.2
2020 (Jul)[2]	250		14.4	14.4	14.4	14.4	14.4	14.4
2021 (Aug)[2]	190			11.6	12.4	12.4	12.4	12.4
2022 (Aug)[3]	203				12.3	13.2	13.2	13.2
2023 (Aug)[2]	190					11.5	12.4	12.4
2024 (Aug)[2]	174						10.5	11.3
2025 (Aug)[2]	159							9.6
2026 (Aug)[2]	152							
Total		228.1	236.7	242.4	252.1	262.2	257.3	259.5
Debt Service Coverage (1.8x)		410.6	426.1	436.4	453.8	472.0	463.2	467.1

[1] As of September 2020, [2] Fixed Rate Bond Issue (30 year at 5.0%)

OPERATING AND MAINTENANCE (O&M)

Operating and maintenance expenses (O&M) are the costs associated with day-to-day operations. O&M is a large and diverse category of costs that includes functions such as power production; distribution and transmission system operation and maintenance; customer services such as billing and the call center; and administrative support. This forecast defines O&M as excluding purchased power, wheeling and taxes, which are included in separate categories.

The basis for the 2021-2026 O&M forecast is the 2020 O&M budget, which is adjusted to remove costs that do not impact debt service coverage, and then inflated appropriately. The average annual inflation applied to O&M is around 2.6% and represents the increased cost of providing the same level of services as in 2020. The table below lists the inflation assumption for each O&M cost category.

BUDGET O&M INFLATION BY CATEGORY

$, Millions	2020	2021	2022	2023	2024	2025	2026
Labor[3]	114.8	118.6	122.4	126.2	130.0	133.8	137.8
Labor Benefits[2]	82.0	84.3	86.6	88.8	91.1	93.3	95.6
Non-Labor[1]	87.7	89.8	91.7	93.6	95.5	97.4	99.3
Transfers to City[3]	65.6	67.8	70.0	72.2	74.3	76.5	78.8
Operating Supplies[1,5]	12.9	13.2	13.5	13.8	14.1	14.3	14.6
Overhead Credits[3,6]	(56.0)	(57.9)	(59.7)	(61.6)	(63.4)	(65.3)	(67.2)
Total	**307.0**	**315.9**	**324.6**	**333.0**	**341.5**	**350.0**	**358.9**
[1]CPI Growth[4]		2.4%	2.2%	2.1%	2.0%	1.9%	2.0%
[2]CPI Growth + 0.5%		2.9%	2.7%	2.6%	2.5%	2.4%	2.5%
[3]CPI Growth + 1.0%		3.4%	3.2%	3.1%	3.0%	2.9%	3.0%
Avg Growth All O&M		2.9%	2.7%	2.6%	2.6%	2.5%	2.5%
[4] City of Seattle Budget Office (forecast from IHS Economics)							
[5]Includes IT equipment and software, fuel costs, inventory material for distribution and generation systems.							
[6]Overhead expenses associated with the Capital Improvement Program (CIP) are removed from the O&M budget and included as capital expenditures.							

There are numerous adjustments made to the 2020 O&M budget to make it consistent with financial policies and reflect changes to plans and programs. The following table details these changes. It shows the relationship between the inflated 2020 O&M budget and the O&M baseline forecast; it also shows the cost impact of inflation separated from cost impact of discretionary adjustments (strategic plan adjustments). The relatively larger increase in 2022 is due to the expiration of the Stateline purchased power contract in late 2021 (included in power costs) and the initiation of a contract to receive RECs (included in O&M) in 2022.

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O&M ADJUSTMENTS DETAIL

$, Millions	2020	2021	2022	2023	2024	2025	2026
Inflated 2020 Budget	307.0	315.9	324.6	333.0	341.5	350.0	358.9
adjustments							
REC Expense[1]	5.8	5.8	11.9	11.9	13.2	12.4	12.8
Intertie Expense[1]	1.1	1.1	1.1	1.1	1.1	1.2	1.2
PNCA Payment[1]	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Under Expenditure[2]	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
O&M Baseline with Inflation	**305.7**	**314.7**	**329.5**	**338.0**	**347.8**	**355.5**	**364.8**
2020 Baseline	305.7	305.7	305.7	305.7	305.7	305.7	305.7
Inflation and REC growth	-	9.0	23.8	32.2	42.1	49.7	59.0
Strategic Adjustments[3]	-	(2.0)	-	-	-	-	-
Total O&M	**305.7**	**312.7**	**329.5**	**338.0**	**347.8**	**355.5**	**364.8**

[1]Items that are budgeted as purchased power budget but recognized as O&M in financial statements

-Renewable Energy Credits (RECs), the increase in 2022 reflects the purchase of Stateline RECs after the current purchased power contract expires

-Maintenance costs associated with ownership the 3rd AC intertie

-Payments for the Pacific Northwest Coordination Agreement (PNCA) related to the compensation for the Benefits of upstream storage at the Boundary project

[2]Remove $10 million per year to reflect an assumption of budget under-expenditure

[3]Unidentified O&M reduction to meet rate path target

POWER COSTS, NET

This category includes all costs and revenue associated with the purchase and sale of electricity, wheeling transmission) and associated ancillary power management services.

City Light's power portfolio is a relative constant. Except for expiration of the Stateline contract in 2022, no major contract changes and no new resources are expected. Below is a table outlining long-term power and wheeling costs.

LONG-TERM POWER AND WHEELING CONTRACTS

$, Millions	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
BPA Power[1]	162.4	164.6	168.1	169.4	173.3	174.8	179.3
Priest Rapids[2]	1.5	1.3	1.3	1.2	1.1	1.0	1.0
Grand Coulee[3]	7.3	7.4	7.6	7.8	7.5	1.7	1.5
Lucky Peak[4]	8.6	8.9	9.1	9.3	9.5	9.8	10.0
Stateline[5]	25.0	25.0	1.7	0.0	0.0	0.0	0.0
Columbia Ridge[6]	6.7	6.9	7.0	7.1	7.3	7.4	7.6
King County West Point[6]	2.3	2.3	2.4	2.4	2.5	2.6	2.6
High Ross[7]	13.1	0.4	0.4	0.4	0.4	0.4	0.4
BPA Wheeling[8]	43.6	44.0	45.4	45.9	47.3	47.8	49.3
Other Wheeling[9]	0.9	0.9	4.8	4.9	5.0	5.1	5.2
Total Power and Wheeling	271.3	261.7	247.8	248.5	254.1	250.7	256.9

[1]Assumes average annual increase of 1.7%, BPA rates updated October 1st of odd-numbered years.

[2]Priest Rapids costs are expected to decline because City Light's share of the project will shrink as Grant County PUD's load grows.

[3]Reflects City Light's apportioned allotment of production O&M costs, growing with inflation. Some contracts start expiring in 2024 and all will expire by 2026.

[4]Reflects production O&M cost growing with inflation.

[5]Stateline wind costs will grow gradually through 2021 as outlined in the integration and exchange contract with PacifiCorp. The contract expires at the end of 2021 with the last payment in 2022. City Light has already contracted to receive RECs from the Stateline Project starting in 2022 (which are included in O&M), but will not continue to purchase the power.

[6]Cost inflates per contract terms.

[7]Expenses for the High Ross contract will decrease significantly after 2020 to reflect the end of the 25-year debt service payments outlined in the contract. The amount of energy received is unchanged.

[8]Assumes average annual increase of 2.1%, BPA rates updated October 1st of odd-numbered years.

[9]Other Wheeling reflects an exchange agreement for the Lucky Peak output for 2020-2021 that will assign the associated transmission to the counterparty, reducing expenses by $3 million. Starting in 2022, this expense is reinstated, as Lucky Peak energy will be retained.

City Light's largest contract is with the Bonneville Power Administration (BPA). Both BPA Power and transmission cost increases are very uncertain and depend on many factors. For planning purposes transmission rate increases are expected to increase 2.1% per year on average over the next 6 years, which is close to CPI inflation. Power rate increases are expected to be much higher due to significant power cost pressures faced by BPA. Power rates are expected to increase around 4.1% per year on average over the next 6 years. However, some of the cost impact of the rate increase is offset by reduced purchase volume due to City Light's declining load. Purchased volumes are expected to decrease by around 2.3% per year on average of the next 6 years. BPA power and transmission rates are changed every two years in October of odd years. After BPA announces its final rates for fiscal year 2021, any differences between fiscal year 2021 actual costs and the costs based on the assumptions below will be passed-through or credited to City Light customers via the BPA pass-through mechanism (SMC 21.49.081).

BPA DETAIL

$ Millions	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Block	162.4	164.6	168.1	169.4	173.3	174.8	179.3
Wheeling	43.6	44.0	45.4	45.9	47.3	47.8	49.3
Total BPA Costs	**205.9**	**208.6**	**213.5**	**215.3**	**220.6**	**222.6**	**228.6**
Annual Change		1.3%	2.4%	0.8%	2.5%	0.9%	2.7%

Power revenues are comprised of net wholesale revenue, other miscellaneous power revenues, and long-term power sale obligations. The following table details these assumptions.

POWER REVENUES, NET DETAIL

$, Millions	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Net Wholesale Revenue[1]	51.7	50.0	40.0	40.0	40.0	40.0	40.0
Power Contracts							
Article 49 to PO County	2.4	2.4	2.5	2.6	2.6	2.7	2.8
Priest Rapids	1.2	1.1	1.0	1.0	0.9	0.8	0.7
BPA Credit for South Fork Tolt	3.1	3.0	2.9	2.9	2.8	2.8	2.7
BPA Residential Exchange Credit	-	-	-	-	-	-	-
Power Marketing, Net[2]	6.4	5.9	3.9	3.4	3.4	3.4	3.4
Transmission Sales[3]	3.4	1.4	1.3	1.0	1.0	1.0	1.0
Total Power Related Revenues, Net	16.4	13.8	11.5	10.8	10.7	10.6	10.5
Total Power Revenues, Net	**68.1**	**63.8**	**51.5**	**50.8**	**50.7**	**50.6**	**50.5**

[1] Net Wholesale Revenue (NWR) is the revenue from selling surplus energy on the wholesale market, net of purchases for load balancing. 2020-2024 NWR planning values were adopted as part of prior strategic plans and represent a gradual downward shift reflecting less reliance on this volatile revenue source. 2022 is reduced to $40 million to account for the expiration of the Stateline wind contract, which will reduce the energy surplus.

[2] Power marketing revenues (net of purchases) are earned from sales of ancillary services associated with generation and transmission assets, such as reserve capacity sales. Revenues are expected to decline in 2022 primarily because of lower Lucky Peak exchange premiums. The current 2-year exchange contract is expected to continue through 2021 with a premium of $2.0 million per year. No exchange premium is assumed for 2022 onward.

[3] Starting in mid-2020, excess BPA 3rd AC transmission capacity will be marketed in the Western Energy Imbalance Market (WEIM) and revenues will contribute to NWR.

OTHER COSTS AND MISCELLANEOUS REVENUES

This "other" category is made up of costs and revenues such as taxes, interest income and fees for retail services.

OTHER COSTS (TAXES, PAYMENTS AND UNCOLLECTIBLES) DETAIL

$, Millions	2020	2021	2022	2023	2024	2025	2026
State Taxes[1]	36.0	39.8	42.7	43.8	45.2	45.1	46.0
Franchise Payments & Other Taxes[2]	6.9	6.8	7.0	7.2	7.5	7.4	7.6
Uncollectible Revenue[3]	7.1	7.2	7.4	7.6	7.8	7.8	7.9
Total Other Costs	**49.9**	**53.8**	**57.2**	**58.7**	**60.5**	**60.3**	**61.5**

[1] State taxes are 3.8734% of retail revenues, plus some other revenues and contributions. Not included are City taxes, which are 6% of total taxable revenues, but do not directly impact the revenue requirement because they are junior to debt service. They are treated as a "below the line" expenditure and are deducted from the additional 0.8x debt service coverage, reducing the amount of current year operating proceeds going to capital requirements.
[2] Payments associated with franchise contracts with the cities of Burien, Lake Forest Park, SeaTac, Shoreline, and Tukwila. Franchise payments range from 4% to 6% of total retail revenue in each franchise territory. City Light also pays Lake Forest Park a 2% public utility tax that is passed through to customers in that jurisdiction as an addition to their rates. Other taxes are miscellaneous taxes (e.g., B&O tax) to other jurisdictions where the utility has operations. The forecast projects only small increases in these taxes.
[3] Uncollectible revenue is assumed to be 0.75% of retail revenues.

MISCELLANEOUS REVENUE SOURCES DETAIL

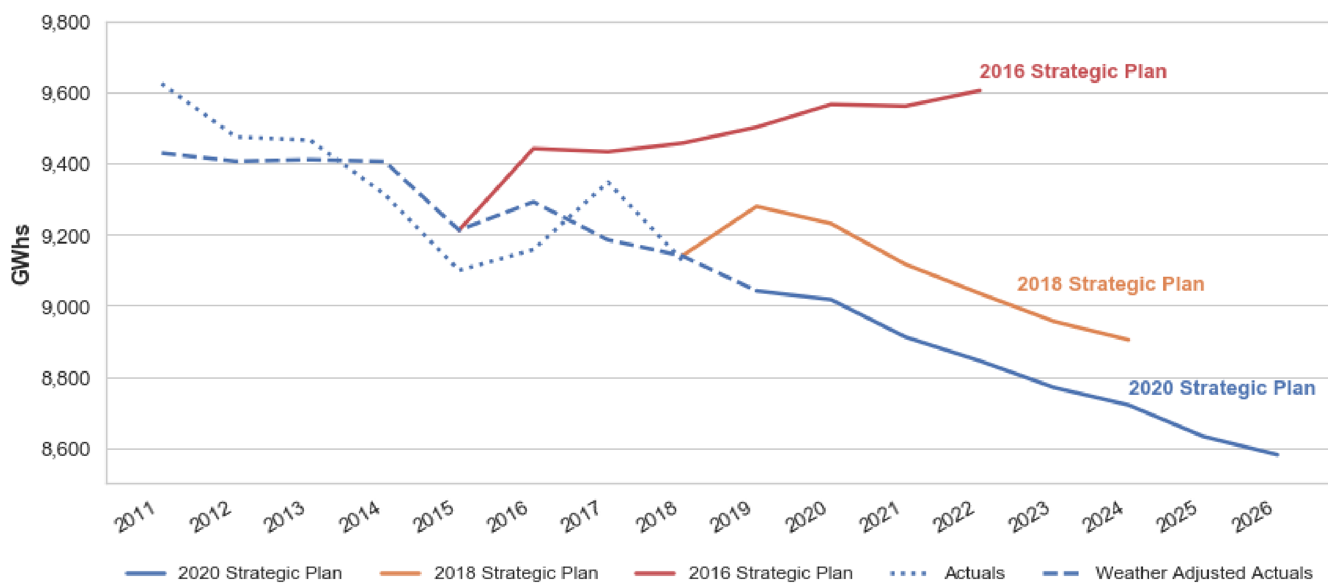
$, Millions	2020	2021	2022	2023	2024	2025	2026
Non-Base Rate Retail Revenue[1]	4.0	4.0	5.0	5.2	5.3	5.5	5.6
Other Revenue[2]	22.6	23.5	24.5	25.6	26.8	29.6	30.9
Suburban Undergrounding[3]	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Property Sales[4]	1.2	1.2	1.2	1.2	1.3	1.3	1.3
Interest Income[5]	6.5	6.8	6.6	6.6	6.6	6.6	6.6
RSA Transfers, Net[6]	(0.6)	(1.4)	(1.6)	(1.6)	(1.6)	(1.6)	(1.7)
Total Miscellaneous Revenues	**37.8**	**38.1**	**39.8**	**41.1**	**42.5**	**45.3**	**46.9**

[1] Non-base rate retail revenue includes revenues from retail customers for services or programs which are not dictated by the revenue requirement. Examples include: elective green power programs, distribution capacity charges and power factor charges.
[2] Other revenue includes a broad range of income sources, such as late payment fees, payments for damages to property, transmission tower attachments, distribution pole attachments and account change fees. Revenues from wireless attachments to distribution poles are projected to increase $0.5-$0.8 million annually because of rapid growth in the number of small cellular attachments. All other items are expected to increase mildly over time, mostly growing with inflation.
[3] Suburban undergrounding revenues are collected from customers in certain suburban cities for the repayment of discretionary municipal undergrounding of parts of their distribution system.
[4] Property sales based on historical averages. No large sales are assumed in this forecast.
[5] Interest income assumes City Cash Pool cash holdings accrue interest at an annual rate of 1.5%.
[6] RSA transfers are the deposit into the RSA net of any RSA surcharge revenue. They primarily reflect interest earned by the RSA.

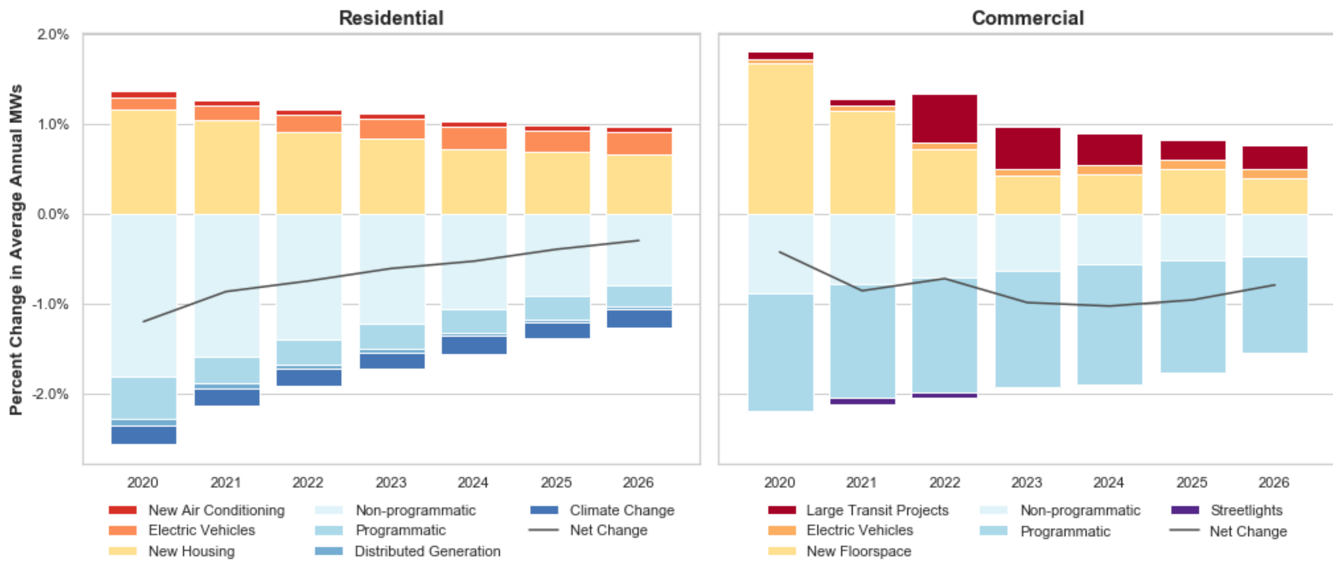
RETAIL SALES

The most recent retail sales forecast was adopted in September 2019. Expectations are for building growth to slow and energy efficiency improvements to continue, which will result in a continuation of the downward trend in retail sales in both the residential and commercial customer classes.

RETAIL SALES FORECAST



Customer Class Key Drivers



Retail sales are forecasted to decline 0.7% per year on average through 2026. The lower Retail Sales forecast relative to the 2018 Strategic Plan adds rate pressure. If retail sales were held constant at levels used to set 2020 rates, the average 2021-2026 rate increase would be 1.6% (all else equal).

RETAIL SALES FORECAST

	2020	2021	2022	2023	2024	2025	2026
GWh							
Residential	2,991	2,957	2,935	2,917	2,909	2,890	2,881
Small and Medium	3,607	3,564	3,537	3,502	3,477	3,435	3,408
Large and High Demand	2,419	2,390	2,372	2,350	2,334	2,308	2,291
Total	9,017	8,912	8,844	8,769	8,720	8,632	8,580
Annual change							
Residential		-1.1%	-0.7%	-0.6%	-0.3%	-0.7%	-0.3%
Small and Medium		-1.2%	-0.8%	-1.0%	-0.7%	-1.2%	-0.8%
Large and High Demand		-1.2%	-0.8%	-0.9%	-0.7%	-1.1%	-0.7%
Total		-1.2%	-0.8%	-0.8%	-0.6%	-1.0%	-0.6%

The forecast of retail sales has decreased since the 2019-2024 Strategic Plan. Most retail revenue is collected through per-kWh or energy rates, so fewer kWh means higher rates are needed to recover the same amount of revenue.

The chart and table below show the impact to the average rate increase resulting from the current retail sales forecast being lower than what was assumed in the 2019-2024 Strategic Plan.

RETAIL SALES FORECAST AND IMPACT ON AVERAGE RATES

	2020	2021	2022	2023	2024	2025	2026
Revenue Requirement, $M		952.3	979.6	1,007.1	1,041.1	1,033.8	1,052.8
Retail Sales Forecast, GWh							
2021-2026 Plan	9,017	8,912	8,844	8,769	8,720	8,632	8,580
2019-2024 Plan	9,230	9,116	9,034	8,955	8,903		
Average Rate cents/kWh							
2021-2026 Plan	10.32	10.69	11.08	11.48	11.94	11.98	12.27
2019-2024 Plan	10.32	10.45	10.84	11.25	11.69		
Annual Rate Increase							
2021-2026 Plan		3.6%	3.7%	3.7%	4.0%	0.3%	2.5%
2019-2024 Plan		1.2%	3.8%	3.7%	4.0%		

APPENDIX A: CAPTIAL REQUIREMENTS

Several key infrastructure projects currently in progress include the underground and overhead equipment replacements, medium overhead and underground services, the Boundary licensing mitigation and the Denny substation network.

MAJOR CIP PROJECTS 2020-2025 SPENDING, $MILLIONS

Included in 2020-2025 Adopted CIP Budget

8353: Underground Equipment Replacements	$205.8
8351: Overhead Equipment Replacements	113.4
8366: Medium Overhead and Underground Services	99.3
6987: Boundary Licensing Mitigation	79.6
8404: Denny Substation - Network	66.6
8363: Network Additions Services-BR Substation	64.0
8452: Pole Attachment Requests Prep	63.3
6986: Skagit - Relicensing	57.0
7125: ND Substation Transmission Lines	52.1
7779: Substation Breaker Replacement - Rel Adds	50.3

The following bar chart is a graphical depiction of capital expenditures. The year 2026 is not shown because a comprehensive CIP plan has not yet been developed for that year. The forecasted capital requirements are anticipated to be lower than recent history and are expected to continue to decline relative to levels in 2014-2018.

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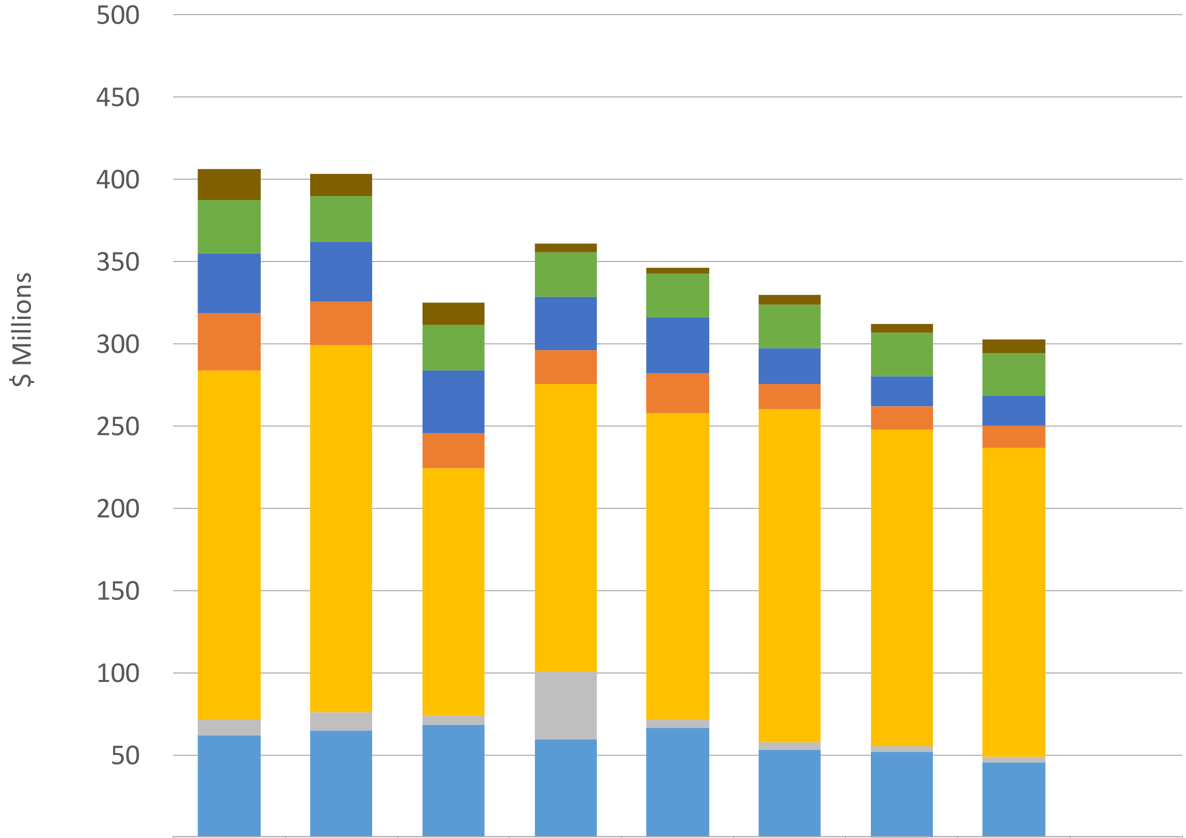
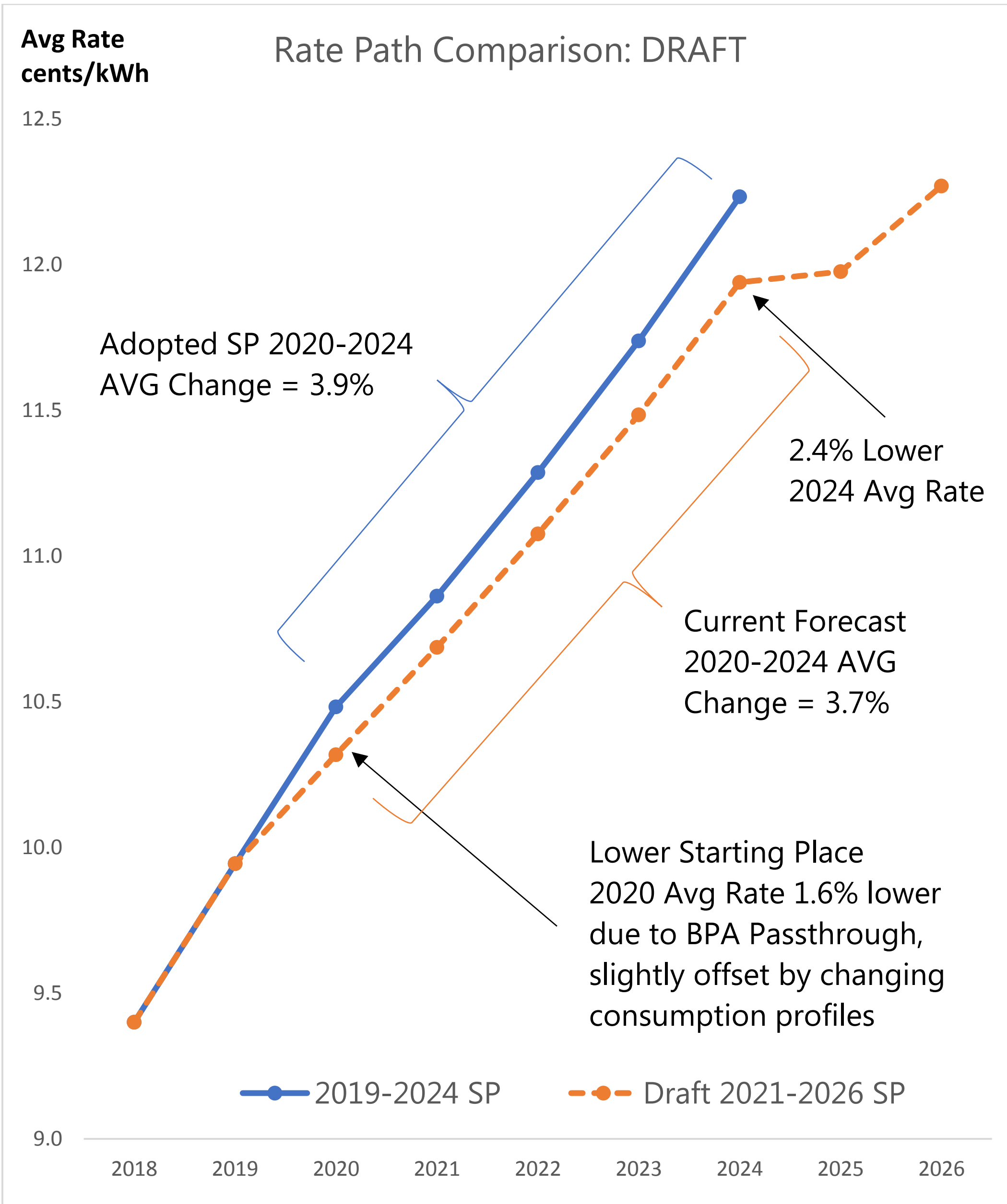
CAPITAL REQUIREMENTS FORECAST: BASED ON 2020-2025 ADOPTED CIP



	Avg 2014-2018	2019	2020	2021	2022	2023	2024	2025	Total 2020-2025
Other Deferred	19	14	14	5	4	6	6	8	47
Conservation	32	28	28	27	27	27	26	26	178
External Projects	36	36	38	33	34	22	18	18	179
Central Utility Projects	35	27	21	20	24	15	14	13	121
Distribution	212	223	150	175	186	203	193	188	1,221
Transmission	10	11	6	41	5	5	4	3	69
Power Supply	62	65	68	60	67	53	52	45	382

APPENDIX B: COMPARISON TO 2019-2024 ADOPTED STRATEGIC PLAN

RATE CHANGE SUMMARY								
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**AVG**
2021-2026 Draft SP								
Revenue Requirement, $M		$952	$980	$1,007	$1,041	$1,034	$1,053	
Retail Sales, GWh		8,912	8,844	8,769	8,720	8,632	8,580	
Avg Rate, cents/kWh	10.32	10.69	11.08	11.48	11.94	11.98	12.27	
Annual Change		**3.6%**	**3.6%**	**3.7%**	**4.0%**	**0.3%**	**2.5%**	**2.9%**
2019-2024 Adopted SP								
Revenue Requirement, $M		$990	$1,020	$1,051	$1,089			
Retail Sales, GWh		9,116	9,034	8,955	8,903			
Avg Rate, cents/kWh	10.48	10.86	11.29	11.74	12.23			
Annual Change		3.6%	3.9%	4.0%	4.2%			
Difference								
Revenue Requirement, $M		($38)	($40)	($44)	($48)			
Retail Sales, GWh		(204)	(190)	(186)	(183)			
Avg Rate, cents/kWh	(0.16)	(0.18)	(0.21)	(0.25)	(0.29)			
Annual Change		(0.1%)	(0.3%)	(0.3%)	(0.3%)			
Difference - %								
Revenue Requirement, $M		(3.8%)	(3.9%)	(4.2%)	(4.4%)			
Retail Sales, GWh		(2.2%)	(2.1%)	(2.1%)	(2.1%)			
Avg Rate, cents/kWh	(1.6%)	(1.6%)	(1.9%)	(2.2%)	(2.4%)			


Avg Rate
cents/kWh
Rate Path Comparison: DRAFT
12.5
12.0
11.5
11.0
10.5
10.0
9.5
9.0
2018
2019
2020
2021
2022
2023
2024
2025
2026
Adopted SP 2020-2024
AVG Change = 3.9%
2.4% Lower
2024 Avg Rate
Current Forecast
2020-2024 AVG
Change = 3.7%
Lower Starting Place
2020 Avg Rate 1.6% lower
due to BPA Passthrough,
slightly offset by changing
consumption profiles
2019-2024 SP
Draft 2021-2026 SP

Changes in Revenue Requirement (Draft 2021-2026 SP vs. 2019-2024 SP)				
$ Millions	**2021**	**2022**	**2023**	**2024**
Revenue Requirement	(37.9)	(40.1)	(44.0)	(48.0)
Debt Service Coverage				
Debt Service	(6.2)	(12.2)	(12.1)	(12.1)
Additional 0.8x Coverage	(4.9)	(9.7)	(9.7)	(9.7)
Operations & Maintenance (O&M)				
Baseline 2020 O&M	2.4	2.4	2.4	2.4
Inflation and REC growth	(1.7)	(1.8)	(2.5)	(3.1)
Strategic Plan O&M Adjustments	(2.1)	1.3	(0.8)	(1.2)
Net Power Costs				
Power and Wheeling Contracts	(18.7)	(16.3)	(17.1)	(18.4)
Net Wholesale Revenue (NWR)	-	0.0	0.0	0.0
Power Related Revenues, Net	(2.3)	(0.3)	0.1	0.1
Other				
Taxes, Payments and Uncollectibles	(1.7)	0.2	0.1	(0.1)
Miscellaneous Revenue	(2.7)	(3.7)	(4.8)	(6.1)

Major Differences:

Debt Service Coverage: Significantly lower debt service on 2018 and 2019 debt issues (includes refunding), slightly lower amount of debt issued overall due to reduced capital requirements: higher proportion of reimbursable CIP and lower programmatic energy efficiency costs (lower annual energy savings targets)

Baseline 2020 O&M: Slightly higher 2020 O&M budget, partially from higher labor costs (COLA)

Inflation and REC growth: $2M lower REC costs due to no load growth compliance strategy, slightly lower inflation assumptions

Strategic Plan O&M Adjustments: 2019-2024 SP had included small changes in net funding levels for strategic initiatives. Future budget will be reprioritized to fund these initiatives. Current Draft SP has $2M of unallocated O&M cuts in 2021 to meet rate targets

Power and Wheeling Contracts: Lower 2020 BPA starting BPA bills. Slightly lower annual BPA bill growth (1.7% vs. ~2.0% in previous SP).

Power Related Revenues, Net: $2M Lucky Peak Exchange Premium assumed to continue in 2021 (no exchange assumed in previous SP). $2M lower resale of BPA PTP transmission due to change in BPA policy regarding available firm capacity.
Miscellaneous Revenue: Slightly higher actuals in 2019 in many areas expected to continue, pole attachment revenue expected to increase from large amount of wireless attachments (5G).