

Seattle City Light Review Panel

c/o P. Leyritz, Seattle City Light
P.O. Box 32023 Seattle, WA 98124-4023
CLRPquestions@seattle.gov

May 23, 2016

Honorable Edward B. Murray, Mayor
The City of Seattle
600 Fourth Avenue
P.O. Box 94749
Seattle, WA 98124-4749

RE: Seattle City Light Strategic Plan Update for 2017-2022

Dear Mayor Murray:

The Seattle City Light Review Panel is pleased to convey our unanimous support for the Seattle City Light Strategic Plan Update for 2017-2022. We encourage the City to adopt this Plan Update as submitted by the Utility.

The Plan Update calls out some important changes to the way City Light is doing business that will require close attention over the next several years. Most significantly, City Light has experienced a decline in retail demand for power in each of the last four years, and the forecast rate of growth in demand for the next six years remains low. While not yet of the magnitude facing many utilities nationally, this decline in actual demand and weak rate of growth in forecast demand is a relatively new phenomenon for City Light. This means we need to start thinking differently about the future of the Utility: the foundation for that shift in thinking is set forth in this Plan Update.

Progress in Meeting Plan Commitments

Since approval of the Utility's initial six-year strategic plan in 2012, we have tracked City Light's progress in addressing the Plan's four key objectives:

- Improving the customer experience
- Increasing workforce performance and safety
- Enhancing organizational performance, and
- Continuing conservation and environmental stewardship

These four key objectives are still relevant and we support City's Light's continued focus on these areas. City Light has made good progress in meeting these objectives, as detailed in over 30 strategic initiatives. Despite significant and unanticipated changes to some capital projects and in the underlying load forecast, City Light has adhered to its rate path commitments and

delivered on its commitment of implementing \$18M in ongoing efficiencies by 2015. Of particular note is the impressive progress made in increasing enrollment in the Utility Discount Program. We are also pleased to see good progress in reducing the rate of employee injuries.

Looking Forward: Utility of the Future

The new theme in the 2017-22 Strategic Plan Update is “the Utility of the Future.” This theme encompasses four factors that will have major implications for City Light over the next several years: (1) declining demand for power; (2) shifting customer expectations associated with technology changes; (3) an aging City Light workforce; and (4) an evolving landscape for renewable power.

Actual retail power sales, by volume, have *fallen every year since 2011*: the Utility sold 3% less retail power in 2015 than it did in 2011. The forecast load growth rate is now about the same as it was in 2014 -- 0.36% average annual growth is forecast for 2017-2022. But this forecast growth rate is half what was forecast as recently as 2012. The Utility projects it will not again sell the same volume of power it did in 2011 until sometime *after 2022*. The graph on Attachment A illustrates this situation.

What does declining retail demand and slowing load growth mean for the Utility and its ratepayers? The Utility derives revenue from two major sources: retail sales (to local residents and businesses); and sales of excess power in the wholesale market. Activity in both of these areas is putting upward pressure on electricity rates. The Utility is experiencing declining retail demand—a result of increased conservation, warmer winter weather, increasing share of multi-family housing, and deployment of more energy efficient infrastructure and equipment. This means fixed costs are spread over a lower volume of electricity sold. Additionally, prices in the wholesale market for power are lower, largely due to competition from low natural gas prices, which has resulted in lower net wholesale revenue.

This situation will become intensified if City Light continues to experience declines in demand. This will need careful tracking, as will re-examination in coming years of the Utility’s financial and rate policies, since current policies and rates are founded, in part, on the premise of continual growth in the demand for electricity.

Given the uncertainty as to future retail demand and its core importance to the Utility’s fiscal health, we are very pleased that City Light has committed to undertake a thorough review of the forecast methodology in the next two years, including but not limited to a new study of consumer electrical-use patterns.

Another important element of the Utility of the Future is shifting customer expectations and technology. Customers are more than a passive revenue source. They want to participate more in tracking and controlling their electricity use, receiving timely information of power outages

and restoration, deploying more efficient home appliances, and even choosing the source of their electricity (roof-top or community solar arrays, for example). This demands a new level of communication and customer engagement supported by investment in technologies that are rapidly changing.

As was first noted back in the initial 2012 City Light Strategic Plan, fifty percent of the Utility's workforce is eligible for retirement within 5 years. That statistic remains essentially unchanged four years later (currently, 50.9% of employees are eligible to retire within five years). We appreciate City Light's pro-active stance towards this issue, as seen in the Utility's commitment to employee training and increasing the number of apprenticeships available. It is important that the Utility remain focused on addressing this major workforce transition.

The Utility of the Future will also face evolving renewable energy technologies. The price of solar power has been dramatically reduced in the last few years. Battery storage technologies are improving and costs are also coming down. Wind power prices are also falling as technology improves. At present, solar power constitutes only about 0.1% of City Light's total load (including all roof-top arrays) but this could change as the number of solar installations in the service area continues to increase. In other states, solar has already grown to a meaningful share of total power supply, and this requires watching in our region.

As a final observation, the future will call for a significant focus on cyber-security and protection of electrical system facilities. Threats that could take down our electrical grid, or dams, or result in customer privacy breaches are part of an unfortunate "new normal" that utilities must proactively address. Our economy, and our quality of life, relies on safe, reliable electricity.

Rate Path for 2017-2022

City Light is committing to a 2017-2022 rate path yielding an average annual rate revenue increase of 4.3% over each of the next six years. This is a slight reduction in the rate path from the 2015-2020 plan (4.4% average annual rate increases) and the original Strategic Plan for 2013-2018 (4.7% average annual rate increases).

Maintaining rate path predictability is one of the most important benefits of the Strategic Plan. This has been affirmed in outreach meetings. That said, we remain concerned about the impact of ongoing annual rate revenue requirement increases well in excess of the rate of inflation. And, we note that the rate revenue paths as experienced are in fact higher than the six-year averages, which are somewhat "front-loaded." The actual rate revenue requirement path since the Strategic Plan was instituted, and as projected for the next two years, is shown below:

| | 2013 | 2014 | 2015 | 2016 | 2017 (Proposed) | 2018 (Proposed) |
|--|------|------|------|------|--------------------|--------------------|
| Rate revenue increase over previous year | 4.4% | 5.6% | 4.2% | 4.9% | 5.6% | 5.6% |

The annual average of these rate revenue increases will be just over 5% per year.

Related to our concern about rate revenue growth, it is also important to look at customers' bills as distinct from rates, especially since overall customer usage is decreasing. Please see the Metrics section below for the Panel's recommendation on developing metrics to measure this impact.

The major driver of these rate increases is debt service from the Utility's large capital investment program. In addition to maintaining and upgrading its transmission and distribution facilities, City Light must maintain the hydropower facilities that have been producing some of the lowest cost power in the nation for decades. Maintaining all these facilities is expensive--and not optional. City Light has also invested in critical distribution infrastructure with the Denny Substation, new automated distribution technology to increase system reliability, and new automated meters to increase operational efficiency and provide customers' valuable information about their energy use. We note that many of these large investments have been made and that the future capital plan is not quite as large. But, City Light must continue to manage its capital improvement program and maintain vigilance and skill in managing its many large capital projects in order to oversee the growth in rate revenue requirements.

Targeted Efficiencies

In the 2012 Strategic Plan, the Utility committed to securing \$18 million in *ongoing* (rather than one-time) efficiencies by 2015. There were a number of challenges to reaching that goal, but the Utility persevered and was ultimately successful. The original efficiency target assumed substantial savings from collective bargaining that did not materialize. The resulting gap was filled by a variety of efforts: of particular note was refinancing and restructuring of debt to provide ongoing capital financing savings. For this Plan Update, City Light is committing to securing \$28 million in ongoing efficiencies by 2018. We strongly endorse the Utility's work in this regard.

Continuing and New Strategic Initiatives

The Strategic Plan is about delivering improvements in the Plan's four key objectives. As a Panel, we will continue to track the delivery of the dozens of specific improvements outlined in

the Plan's 30-plus strategic initiatives. These improvements are an important part of the rationale for supporting the proposed rate revenue path.

There are three new initiatives included in this Plan Update, which are of nominal cost. We support these three initiatives as they will directly benefit customers for minimal cost:

- **Utility of the Future** – supporting targeted strategic thinking around the issues outlined above in our letter.
- **Transportation Electrification** – expanding electrification beyond personal vehicles is an appealing idea to the extent it can both result in direct benefit for ratepayers, as well as improved air quality, particularly through increasing deployment of electrical buses.
- **Climate Adaptation Plan** – having developed the plan over the last three years, the Utility will now move into implementation.

Race and Social Justice Initiative

We support the breadth and depth of the City's commitment to the Race and Social Justice initiative. City Light is committed to this initiative in its every day operations and in the execution of the initiatives in the Plan Update. The Panel has requested that City Light staff keep the Panel informed about how this initiative translates to changes in City Light's operations and management practices.

Metrics

Moving beyond the specified operational improvements and capital project deliverables identified in the various initiatives, we support the addition in this Plan Update of a set of targeted metrics focused on outcomes of the Utility's work. This is a positive step and creates a new dimension of accountability for the Utility.

One additional metric that we encourage the Utility to track is the change in typical customer bills over time. The rate revenue path is not the same as the impact on anyone's utility bill: the bill is affected not only by rates, but also by usage. Usage has generally been decreasing per household and per square foot of commercial space. The question underlying the metric is "How much conservation effort is needed by a customer to keep their electric bills at around the same level, or growing with inflation, year to year?" While there is no "average customer," we think it is important to assess and communicate with customers as we enter into a future of slowing load growth for the Utility.

Conclusion

The City Light Rate Panel was created in 2010, and a majority of our original nine volunteer members still serve on the Panel. We remain strongly supportive of the purpose behind

creating this joint Mayor-Council appointed panel: to provide advice and recommendations from the perspective of key customer groups on City Light's rates and Strategic Plan. This process was instituted to expand engagement of City leaders around the strategic business operations of City Light – an over \$1 billion a year operation and the largest single City department. While some of us now in our second or third terms will be stepping down after the delivery of this Strategic Plan Update, we applaud the Mayor and Council for your continuing support of the process of which we are a part. We encourage your continued support for what we see as a very positive evolution in oversight of the Utility.

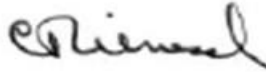
We endorse the Strategic Plan Update for 2017-2022 as proposed. We encourage the Mayor and Council to engage with the Utility over the next two years in examining what “the Utility of the Future” means for City Light and its ratepayers, and we thank you for the opportunity to share our thoughts and recommendations with you.

Sincerely,

Seattle City Light Review Panel



Julia M. Ryan, Chair
Panel Position 2:
Financial Analyst
Representative



Tom Lienesch, Vice-Chair
Panel Position 1:
Economist



Sara Patton
Panel Position 3:
Non-Profit Energy
Efficiency Advocate



Eric Thomas
Panel Position 4:
Residential Customer



David Allen
Panel Position 5:
Commercial Customer



Chris Roe
Panel Position 6:
Industrial Customer



Sue Selman
Panel Position 7:
Low-Income
Communities Advocate



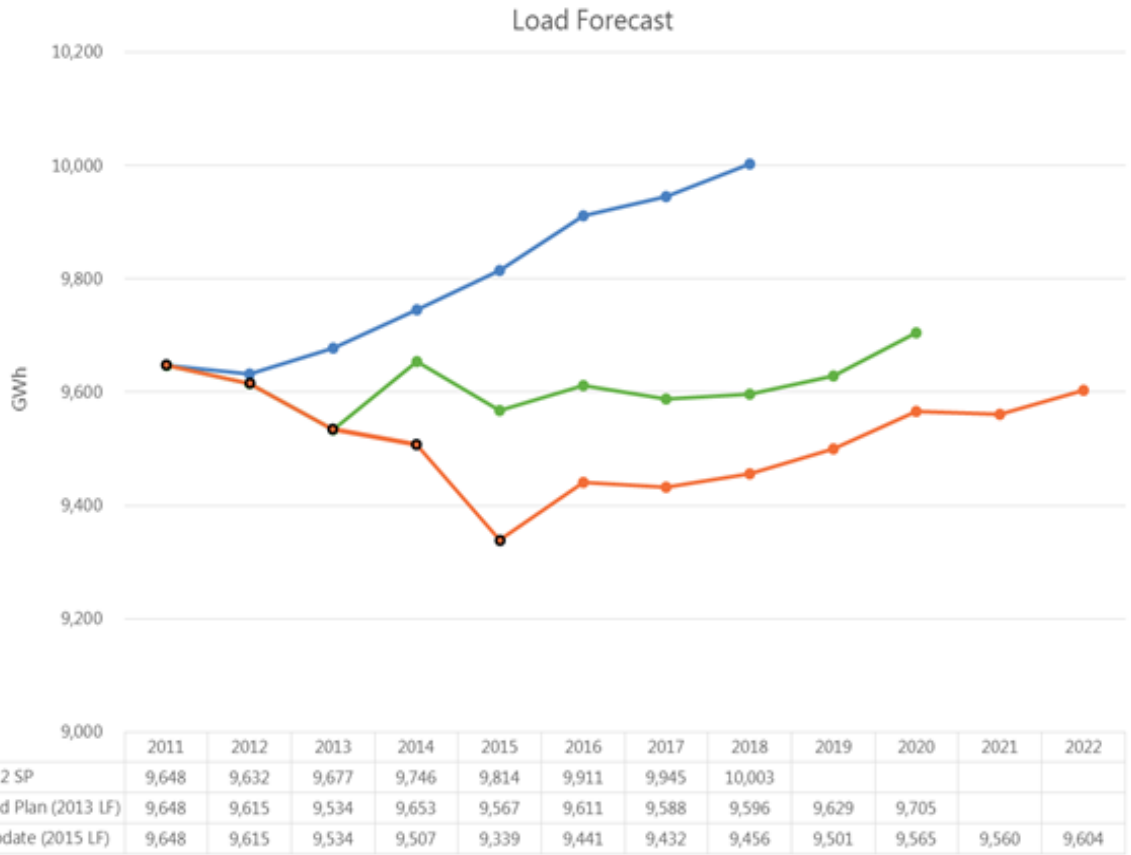
Eugene Wasserman
Panel Position 8:
At-Large Customer



Gail Labanara
Panel Position 9:
Suburban Franchise
Representative

Attachment A: City Light Load Forecasts and Actual Power Demand, 2011-2022
cc: City Councilmembers; Larry Weis, General Manager, City Light

Attachment A: City Light Load Forecasts and Actual Power Demand, 2011-2022



Source: City Light