

Draft dated 8.24.16

Seattle City Light Review Panel
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September __, 2016

Mayor Edward B. Murray
City of Seattle

Councilmember Kshama Sawant,
Chair, Energy and Environment Committee

Dear Mayor Murray and Councilmember Sawant:

We write to transmit to you our proposed biennial work plan. The work plan covers the period from September 2016 through May 2018, at which point the next update of the City Light Strategic Plan will be submitted to the Mayor, and thereafter, the City Council. Ordinance 124740, amending the Panel's role and staffing, states in part that:

After the adoption of each update to the strategic plan, [the Panel will] work closely with staff designated by the Mayor and the council to propose, in writing, a biennial work program to the Mayor and Council. Work program items may include, but are not limited to, financial policies, cost allocation, rate design, operational efficiency, issues requested by the Mayor or the Council, and issues the Panel believes the Mayor and the Council should consider.
(Ord. 124740, Section 1.)

We have worked with staff from the Council, Budget Office and the Utility in the development of the proposed work plan.

In summary, the proposed work plan covers all the work program items outlined in Ordinance 124740. There are five core components to the work plan, which is attached to this letter:

1. **Monitoring**—Tracking the status of current Strategic Plan progress and the initiatives included therein, as well as receiving other informational briefings.
2. **Baseline / Costs of Service**—The “baseline” represents the revenues and costs of providing the current level of service. New initiatives approved in the updated Strategic Plan are in addition to the baseline. Well over 90% of the Utility's costs of doing business are in the baseline. When the City Light Strategic Plan was first adopted in 2012, it required over a year's worth of work to develop the baseline. Since that time, the Utility has updated the baseline but the Panel has not conducted a thorough, top-to-bottom review of the baseline: we propose to do so in this work plan. This work will include examining the costs of generation, power supply, transmission, distribution and other infrastructure, internal services, and reconfirming the current levels of service. We anticipate this will also include policy work around rate structures and the Rate Stabilization Account.

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3. **Load, Energy Efficiency and Retail Revenue**—As highlighted in our letter to you supporting the 2016 Strategic Plan update, 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. This decline in actual demand coupled with a weak rate of growth in forecast demand is a relatively new phenomenon for City Light. As demand declines, fixed costs are spread over a lower volume of electricity sold which increases pressure on customer rates. Additionally, prices in the wholesale market for power are lower, largely due to competition from low natural gas prices, resulting in lower net wholesale revenue—putting additional pressure on customer rates. Consistent with the updated Strategic Plan, we will be reviewing the Utility’s work to update its demand forecast methodology and address the implications of slowing load growth including identifying policy options for consideration by the leadership of the Utility and the City. The work items in this portion of the work plan will help inform the rate policy discussions mentioned under the **Baseline /Costs of Service** section above.
4. **Efficiencies**—A major focus of the Review Panel since its creation in 2010 has been looking at how the Utility can continue to integrate efficiencies into its operations and capital planning to reduce the cost of service over time. The 2010 plan included finding a target level of \$18M in annual ongoing savings. The Utility has adopted higher efficiency goals in the 2016 Strategic Plan update: \$28M in annual, ongoing savings. We propose to continue tracking the Utility’s success in this area.
5. **Strategic Plan Development and Delivery** – Our major task is to review development of the Strategic Plan. The timeline and tasks for this work are also outlined in the proposed work plan.

The work plan outlines a very ambitious plan for the Utility, the Panel, and our partners in this process—Council and Executive Staff – to conduct over the next year and half. We would be glad to speak with you about our plan, and if you have additional or different items you would like us to consider, we welcome your ideas.

Thank you for your continued interest in and support for our work.

Sincerely,

Tom Lienesch
Panel Chair

Gail Labanara
Panel Vice-Chair

cc: Council President Bruce Harrell
Members, Council Energy and Environment Committee
SCL General Manager Larry Weis
Tony Kilduff, Council Staff
Greg Shiring, Budget Office
Calvin Chow, Council Central Staff

Enclosure: Proposed Work Plan for SCL Review Panel, September 2016 – May 2018