



 **Seattle City Light**

Strategic Plan Update

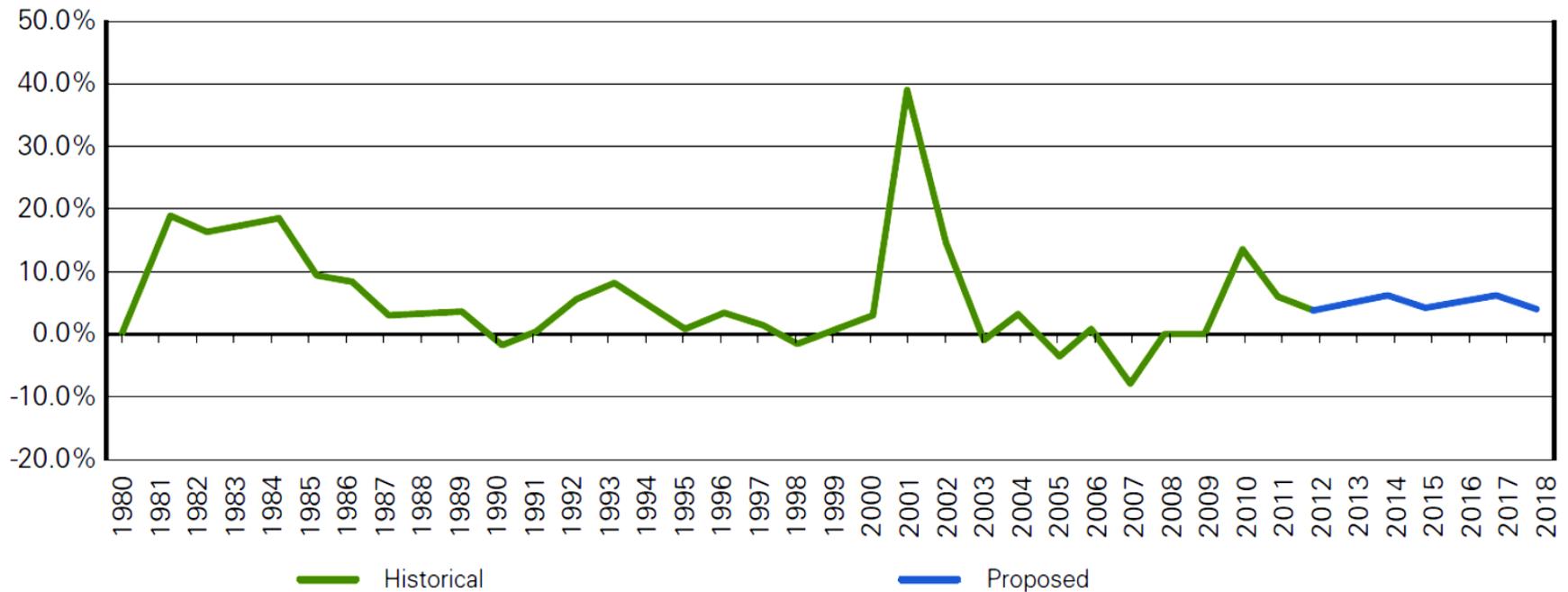
Council Briefing
March 17, 2014

2013-2018 Strategic Plan

WHY A STRATEGIC PLAN?

Consistent customer experience and rate predictability

Promised average rate increases of 4.7% per year over six years



2013-2018 STRATEGIC PLAN

Baseline investments to **MAINTAIN** current level of service.

Invest in power supply & environment, reliability, customer service, and infrastructure at levels needed to maintain current level of service.

Efficiencies to improve the utility's productivity.

Identified efficiencies to produce \$18 million per year in savings by 2015.

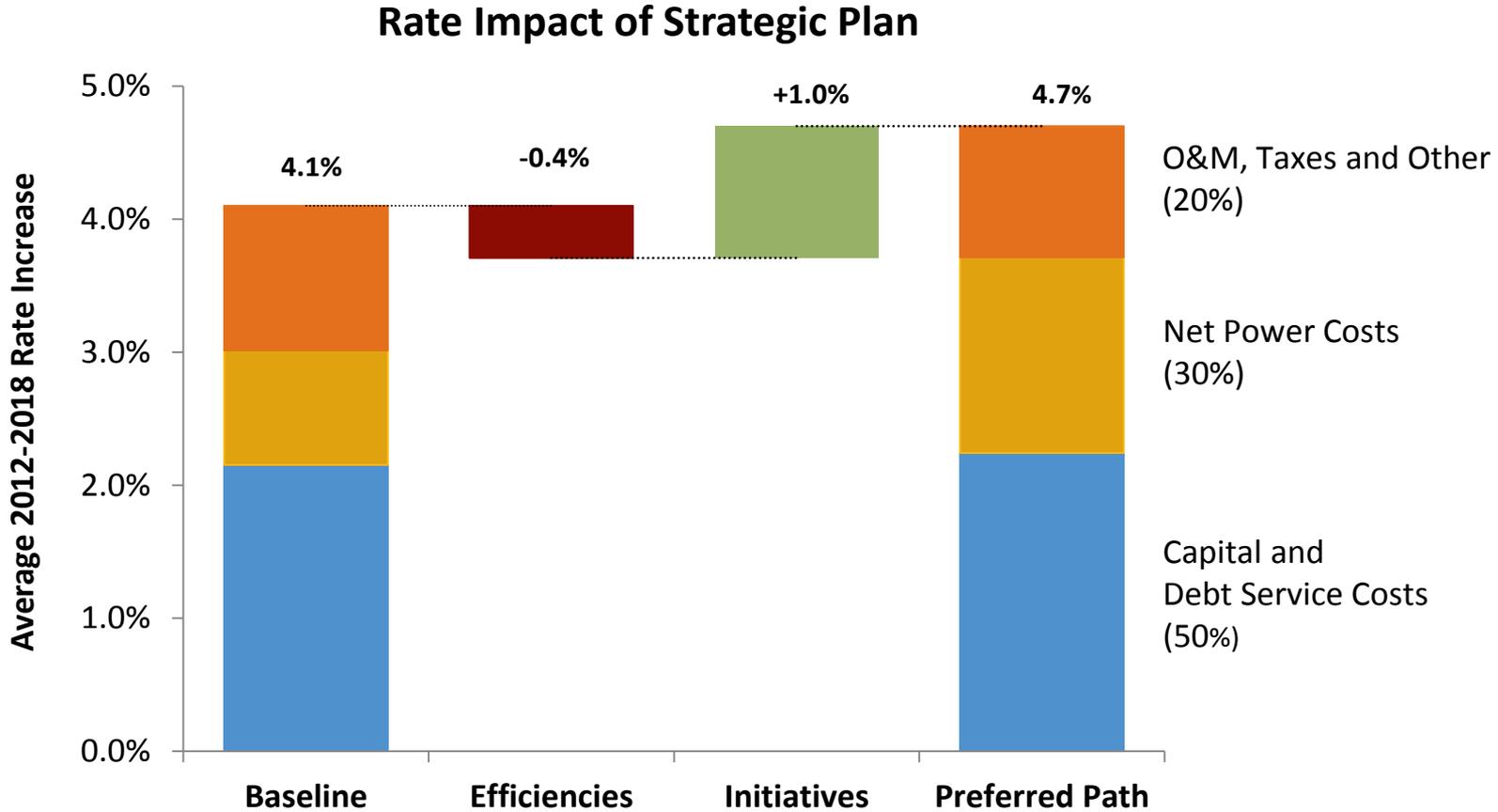
Initiatives to **ENHANCE** the level of service.

Investment in 36 initiatives to achieve these four objectives:

1. Improve **customer experience** and **rate predictability**
2. Increase **workforce performance** and **safety practices**
3. Enhance **organizational performance**
4. Continue **conservation and environmental leadership**

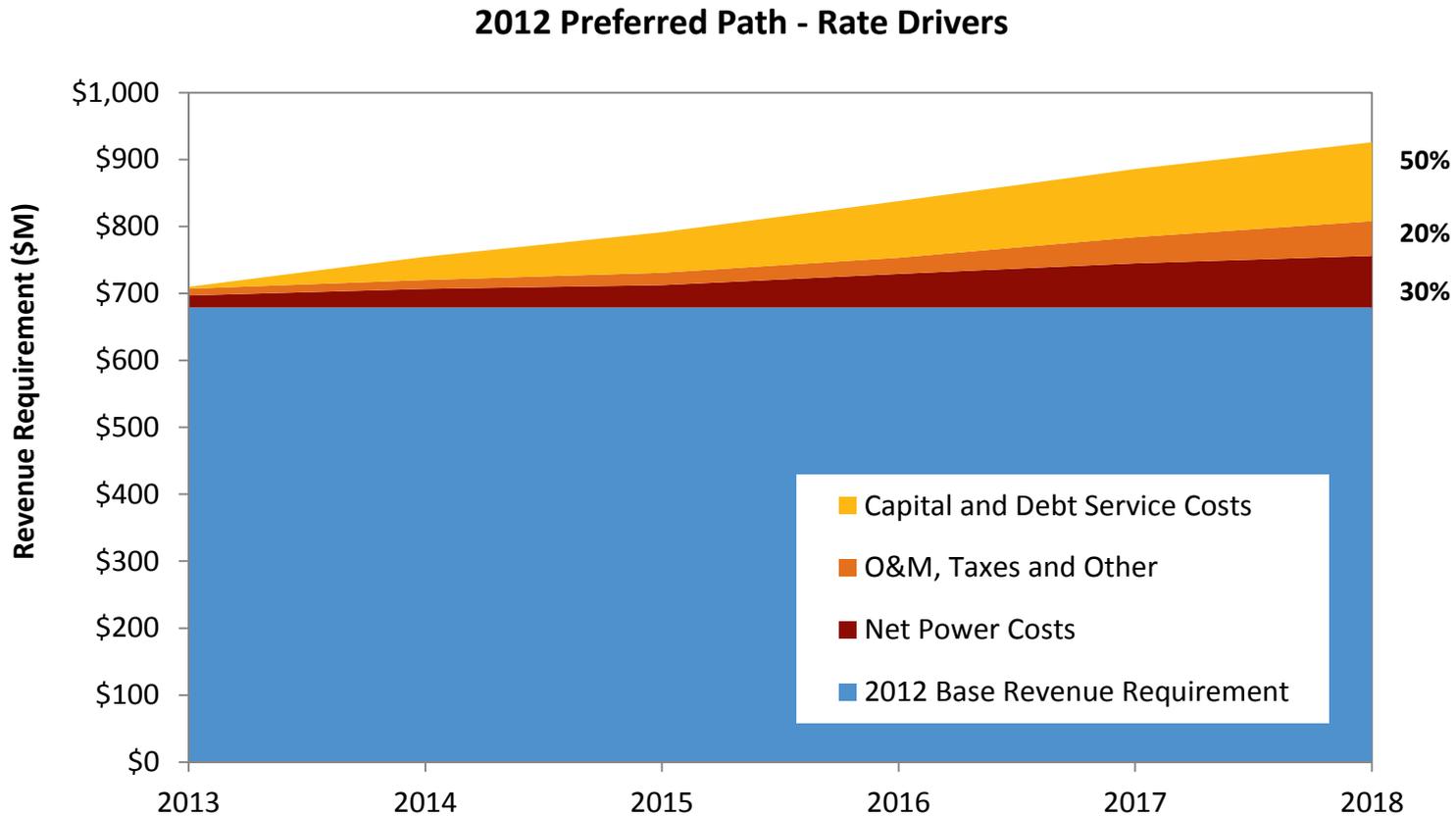
2013-2018 STRATEGIC PLAN

Most of rate increase is driven by baseline.



2013-2018 STRATEGIC PLAN

Most of revenue requirement increase is driven by investment in infrastructure.



2013-2018 Strategic Plan Update

What have we accomplished in 2013?

Baseline, Initiatives and Efficiency Achievement

BASELINE, INITIATIVE AND EFFECINCY ACHIEVEMENT

BASELINE

- The Strategic Plan identified 22 baseline assumptions which underpin the utility's ability to deliver current service levels to its customers.
- In 2013, the utility delivered on all 22 baseline assumptions, meeting or exceeding 20 of the metrics.

INTIATIVES

- Total 36 initiatives :
 - 19 Completed or On-Track, 12 Temporarily Delayed,
 - 2 Over Budget or Scope, 3 Not Started

EFFICIENCIES

- Target for 2013 - \$7m, delivered \$10m

(See Handout)

2015-2018 Strategic Plan

What challenges did we face?

What has changed?

CHALLENGES AND MITIGATION PLAN

- MAINTAIN 4.7% RATE PATH

Challenges

Denny Substation Costs - A changing design and higher environmental remediation costs drive the cost \$62 million above budget.

Decrease in Load Growth Assumption - The 0.6% annual load growth assumed in the 2013-2018 plan was too optimistic. New forecast predicts lower growth.

Mitigation Plan

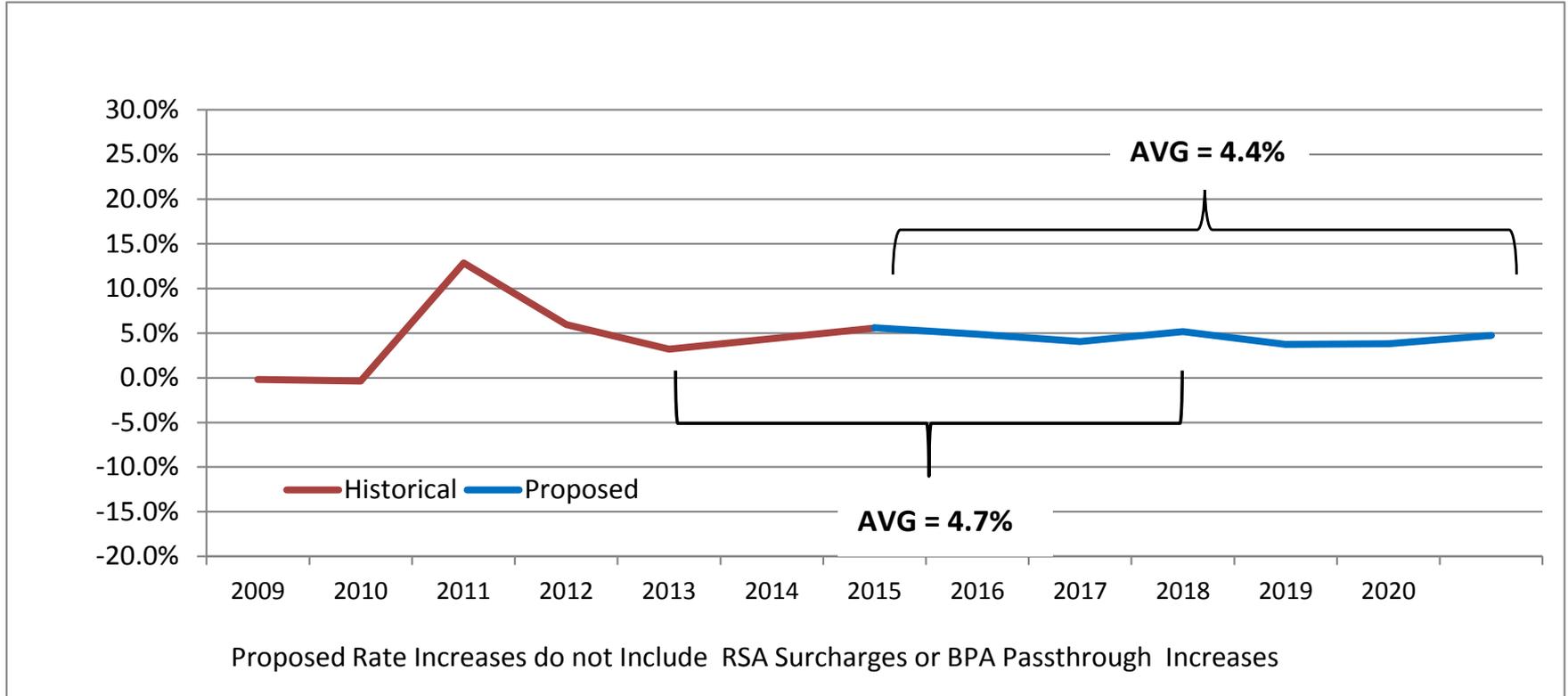
Capital Adjustments - Slow pace of certain investments based on revised needs and assume sale of Roy Street property

Financing and Liquidity - Plan to use line of credit to reduce the cash position outstanding and debt service costs.

O&M Reductions - Assume a 3% under-expenditure of non-power O&M (which more closely reflects actual spending performance), of approximately \$10M each year.

Strategic Plan Update 2015-2020

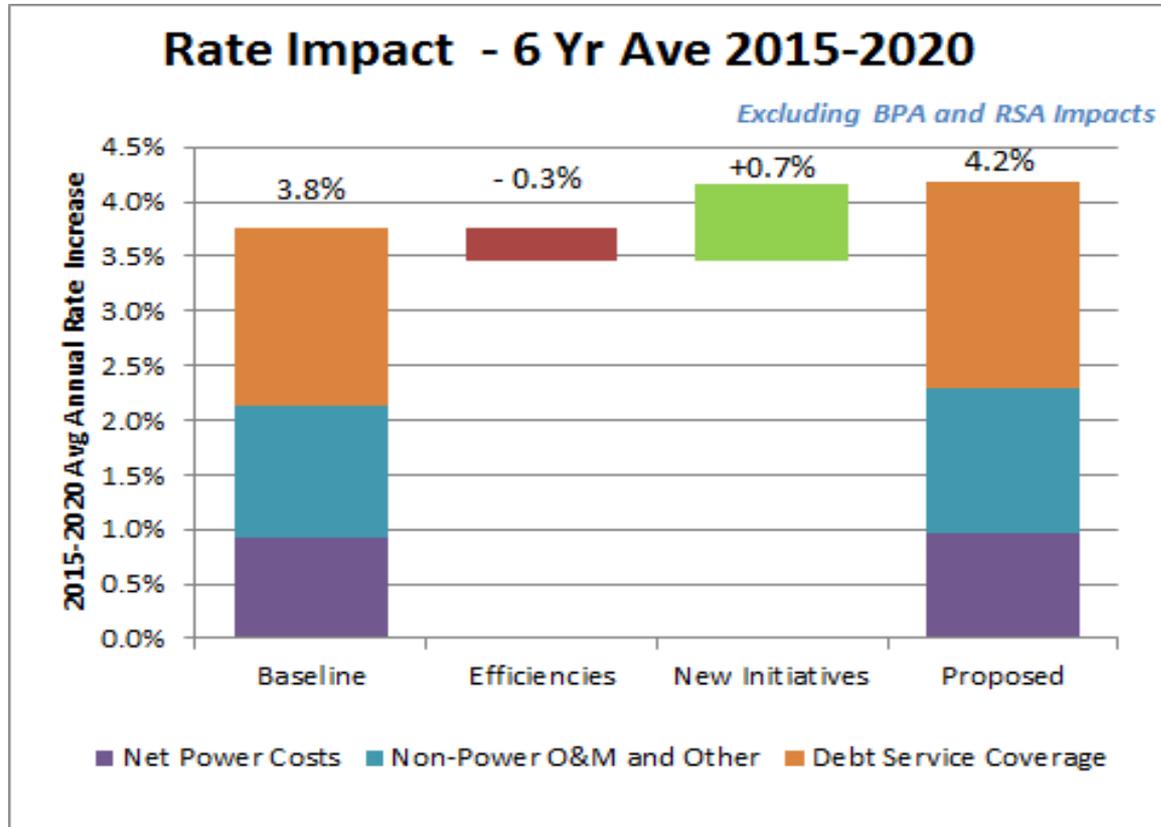
UPDATED STRATEGIC PLAN RATE PATH 2013-2018 VS. 2015-2020



New 6 year glide path reflects average annual rate increases of 4.4%

Reduction in rate pressure with the addition of two new years

STRATEGIC PLAN: BASELINE AND DRIVERS



With two new years added to the plan, the rate increase continues to be largely driven by baseline costs to maintain current levels of service and infrastructure

MAJOR ASSUMPTIONS IN 2019 AND 2020

Debt Service

- Includes \$118M from New Initiatives
 - Master Service Center Plan
 - Distribution Automation

Power Costs

- RSA Baseline = \$55M and \$50M in 2019 and 2020, respectively

Efficiencies

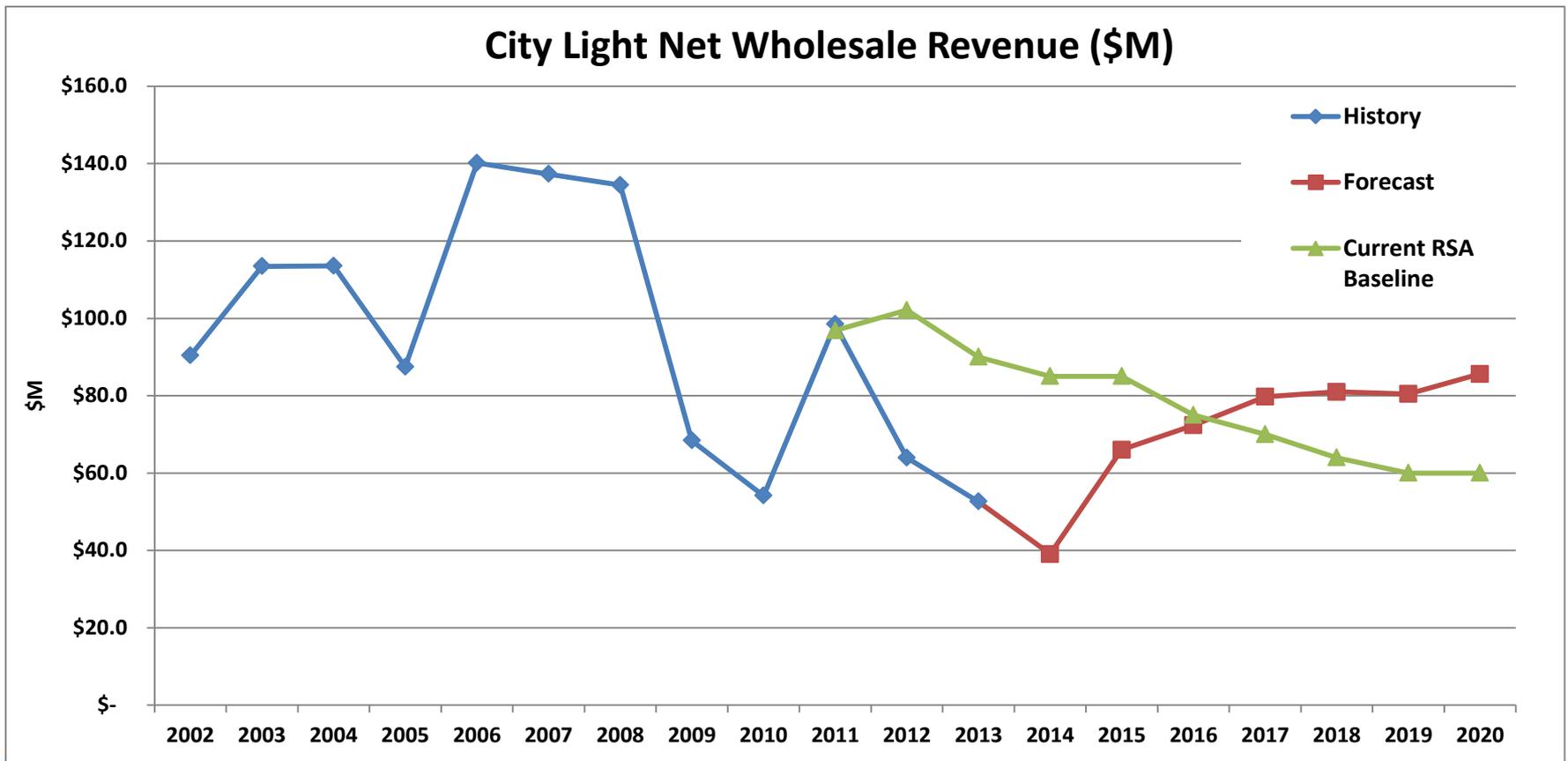
- \$18m/year increasing with inflation
- Identify additional savings opportunities through future benchmarking efforts

Concept

Net Wholesale Revenue/Rate
Stabilization Account

OUTLOOK - NET WHOLESALE REVENUE

In the near term the current RSA Baseline is much higher than the forecasted NWR.
This could lead to prolonged RSA surcharges



NET WHOLESALE REVENUE CONCEPT

	2014	2015	2016	2017	2018	2019	2020	Total 2015-2020
RSA Baseline NWR, \$M								
Assumed in Strategic Plan	85	85	75	70	64	60	60	414
Proposed	85	60	60	60	60	55	50	345
Difference	0	25	15	10	4	5	10	69

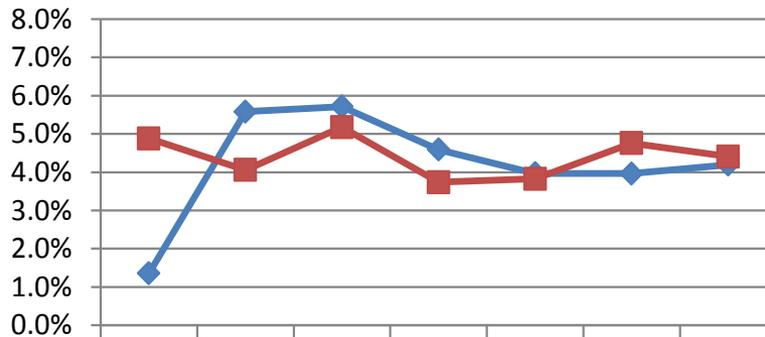
The Concept will:

- Address the chronic gap between the NWR Budget and expected NWR in the near term
- Smooth the base rate increase over the 6 year period of the Strategic Plan
- Reduce the probability of a surcharge in the near term and increase the probability of giving customers a credit in the out years or reduce long-term debt.

COMPARATIVE IMPACT OF CONCEPT

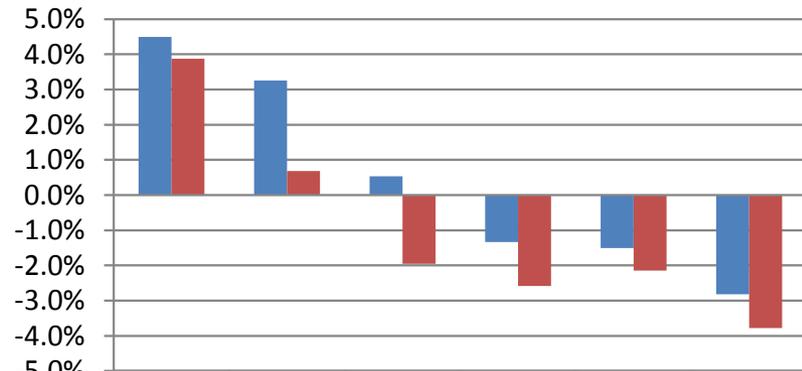
The proposal would slightly increase base rates but would reduce the size and/or duration of RSA surcharges

Base Rate Annual Increase



	2015	2016	2017	2018	2019	2020	Avg
Current	1.4%	5.6%	5.7%	4.6%	4.0%	4.0%	4.2%
Proposed	4.9%	4.1%	5.2%	3.7%	3.8%	4.8%	4.4%

Forecasted RSA Surcharges /(Credits)



	2015	2016	2017	2018	2019	2020
Current	4.5%	3.3%	0.5%	-1.3%	-1.5%	-2.8%
Proposed	3.9%	0.7%	-2.0%	-2.6%	-2.1%	-3.8%

2015-2020 Avg Effective*
Rate Change

Current	3.4%
Proposed	3.5%

* Includes Impacts of base rates and surcharges/credits

Timeline

Strategic Plan Update
Including Rate Design

TIMELINE

Strategic Plan Timeline 2014						
	Feb	March	April	May	June	July
Briefing Deputy Mayor	X					
Other Briefings with Mayor's Office - As needed	X					
Council Initial Briefing		X				
Review Panel Completes Recommendation			X			
Mayor's Office Deliberations				X		
Council Process/Special Council Committee					X	X