

RESOLUTION No. 30494

A RESOLUTION approving, with modifications, the Executives proposed scope of work for Seattle City Light's 2002-2003 Strategic Resource Assessment and establishing the need for an independent panel to review the findings and recommendations of the final Assessment.

Introduced:	JUL - 8 2002	By:	WILLS
Referred:	JUL - 8 2002	To:	Energy & Environmental Policy Committee
Referred:		To:	
Reported:	7-15-02		
Passed:	7-15-02	Signed:	7-15-02
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RESOLUTION 30494

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WHEREAS, the near-term financial health and long-term strength of City Light depends on having a sound strategic plan for resource acquisition, load management and risk assessment; and

WHEREAS, findings and recommendations of the Strategic Resource Assessment completed in 2000 need to be reviewed to reflect new market conditions and to acknowledge the financial challenges that have arisen for City Light as a result of the West Coast power crisis; and

WHEREAS, the City Council directed City Light to revise its Strategic Resource Assessment as part of its work plan for 2002 and the Utility has now brought forth a proposed scope of work to guide the completion of this Assessment; and

WHEREAS, the Council has identified additional issues and areas of concern that should be addressed in the 2002-2003 Strategic Resource Assessment; and

WHEREAS, the Council believes an independent assessment by knowledgeable citizens will provide an important and necessary review of City Light's Resource Assessment;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE THAT:

Section 1. City Light shall, by January 1, 2003, deliver to the City Council's Energy and Environmental Policy Committee a preliminary report summarizing the draft findings and recommendations of the 2002-2003 Strategic Resource Assessment related to near-term decisions and risk management policies and strategies. The scope of work summarized in Attachment A summarizes some of the key tasks to be addressed by this Assessment. Further, Council has identified the following additional questions that shall be addressed in the Strategic Resource Assessment.

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7/1/02
V #2
SRAresol revised v.2

1 A. **Strategy for Maintaining Load Resource Balance.** What are the costs and benefits
2 of reducing market risks by securing resources sufficient to meet load under even critical
3 water conditions? Are there other, more cost-effective approaches to achieve the same level
4 of security?

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6 B. **Transmission.** What strategic risks does City Light face in terms of its transmission
7 resources and its long-term ability to deliver power to its service territory? What are the
8 potential implications of a Regional Transmission Organization for City Light's resource
9 planning?

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11 C. **Rate Structures.** Can alternative rate structures (such as time-of-use rates or real-
12 time pricing for commercial/industrial customers) be used to help better match resource
13 supply and customer demand?

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15 D. **Competition.** What does the Federal Energy Regulatory Commission's long-run
16 goal of deregulation imply for City Light's resource decisions? Within this context, should
17 the potential risk of stranded investments be an element of current long-term planning
18 efforts?

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20 To the extent that the analysis required for any of the tasks proposed by City Light or
21 identified by the Council can be completed before January 1, 2003, City Light shall present
22 these results to the Energy and Environmental Policy Committee prior to January 1, 2003.
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BDN
7/1/02
V #2
SRAresol revised v.2

1 **Section 2.** Once a preliminary report summarizing the draft findings of the 2002-
2 2003 Strategic Resource Assessment has been presented to the Energy and Environmental
3 Policy Committee, the Council shall appoint an independent panel to review the report and
4 to make recommendations to Council regarding its conclusions and findings.

5
6 Adopted by the City Council the 15th day of July, 2002, and signed by
7 me in open session in authentication of its adoption this 15th day of July, 2002.
8

9
10 Peter Stember
11 President _____ of the City Council

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13 Filed by me this 15th day of July, 2002.

14 [Signature]
15 City Clerk
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17 (Seal)
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Attachment A: Strategic Resource Assessment 2002 -2003 Update

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Attachment A

Strategic Resource Assessment: 2002 -2003 Update

June 21, 2002 Draft for Discussion

Tasks:

1. Update Load Forecast

There have been several changes to our load forecast since the 2000 SRA Update. Public appeals to curtail usage during the 2000-01 drought, rate surcharges of 58%, the recession, and accelerated investments in conservation resulted in a 2001 load of 1082 aMW, 15% less than forecasted and 5% less than 1999 and 2000 actual load. Customer load for the first three months of 2002 was slightly higher than our revised forecast, indicating some rebound.

Given all these changes, new load projections need to be developed. In addition to a base load forecast, different scenarios dealing with various sources of uncertainty will be required for the new Strategic Resource Assessment. Load forecasts, and how we might best respond to unanticipated changes to customer demand, would be a key element of a 2002 SRA Update. Monthly load projections for the next ten years will help City Light understand better how its resource strategies match loads and resources over the different months of the year.

2. Review Current Portfolio of Resources

The City Council directed City Light to acquire resources to ensure that the utility could meet its obligation to serve its customers' needs in critical water conditions. Given the load reduction and the resource acquisitions pursuant to the 2000 policy direction, the utility is in load/resource balance in years of very poor water conditions. This means that City Light can avoid having to buy power to meet load at whatever costs might prevail in dry water circumstances, and City Light will have energy surplus in some months even in the driest years. This results in a slight increase in the net cost of our owned and long-term contract resources, but provides insurance against the risks of high costs in drought conditions. The average cost of the resource portfolio is still below average market prices, although the cost of a few resources is not.

3. Update Market Price Projections

The evaluation of our resource portfolio relies heavily on the projection of energy prices. While over the long run energy prices should reflect market fundamentals, significant fluctuations can and do occur at particular points in time. While long term resource decisions require long-term market price projections, City Light also needs to assess its strategies to deal with the impacts of deviations from that level. The projection of "base" market prices, as well as an estimate of the potential ranges of variation, would be part of the 2002 update to the Strategic Resource Assessment.

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4. Review Risk Management Policies and Strategies

As a result of the implementation of the 2000 Strategic Resource Assessment, City Light is no longer dependent on market purchases to meet its customers' load under critical water conditions. The utility's marketing strategies are focused on best turning surplus energy into cash. We are confident we can sell in advance the energy from our portfolio that exceeds customer load under critical water conditions, as in many months, even in the driest years, the utility is in surplus. The timing of these sales, which in turn is related to current and expected energy prices, is a topic of potential review. In addition, in most years, with better than dry water conditions, the utility will have energy surplus in all months. Current risk management policies will be reviewed in light of these anticipated surpluses, changing market conditions, and potential sudden changes in the demand from our customers. Finally, credit policies will be reviewed with a primary focus on the ability of our market partners to pay for the power they buy from us.

5. Prepare for Near Term Resource Decisions

a. Bonneville Power Administration Contract (BPA):

Regional discussions are underway to allocate federal power through 2021 essentially on the current basis. This would reduce BPA's need to augment its system, including SCL's already contracted for 115 aMW increase from 2006-2011. Sometime next year, Seattle may have to decide whether to switch from our current contract to a new one based on this regional settlement. BPA power is expected to cost slightly less than market, but if, for example, the aluminum industry resumes production and BPA is obligated to serve their load, BPA's costs and prices might rise. Other factors will affect BPA's costs as well. We need to review BPA's financial condition, the potential levels of future BPA rate adjustment clauses, the favorable impact of retiring the Washington Public Power Supply System (WPPSS) debt, and the impact of any proposal that may affect the cost of this resource to City Light ratepayers.

b. Klamath Falls:

Our current contract runs through June 30, 2006 with an option to renew for another five years. The option must be exercised by December 31, 2004. The updated resource strategy will evaluate this option and compare it with alternative sources of power, as discussed below.

c. Other Generation:

If we give up the additional 115 aMW BPA purchase expected in October 2006 and/or do not renew the 85 aMW Klamath Falls contract, we may want to explore another long term alternative for meeting load rather than resume relying on the power market. This could be either another multi-year contract with a generation owner, or development of a new City Light resource like a simple-cycle combustion turbine to run when necessary to firm up our variable hydro resource or protect against peak period demands on the system. A City Light owned combustion turbine could provide more flexibility than a contract because its operation would be directly under our control, thus making it a truly dispatchable resource.

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In the past we have reviewed several options and sites for a combustion turbine. Five years ago City Light completed an Environmental Impact Statement on such a plant just south of the Seattle city limits, but did not build it. An in-service territory generator could also reduce our peak transmission costs, especially "congestion management" costs such as proposed by RTO-West. If there is a desire to have any such resource on-line when the Klamath Falls contract expires, significant work must be set in motion in the near-term. The 2002 resource strategy assessment would update information and clarify timelines for key decisions to determine what activities should be set in motion in the near term.

City Light has also reviewed the option to increase the output and efficiency of one of its own hydro resources (Gorge) by building a companion tunnel to the existing structure. This investment would improve the efficiency of the whole Gorge Project, for example, since it would make it possible to do required maintenance without significantly reducing generation levels. While this option does not add to the portfolio's diversity, the 2002 updated resource assessment would include an evaluation of this proposal and determine if such an investment is appropriate as part of City Light's broader resource strategy.

d. Conservation:

The 2000 SRA Update included a conservation potential assessment completed in cooperation with the Northwest Power Planning Council staff. This led to the "ConXL" expansion of SCL's conservation programs. Since that time, the utility signed a contract with BPA for nearly \$28 million to fund two years of this expanded effort. The new conservation achievement report will provide information on how well and at which cost City Light achieved its goals. With changes in loads, market prices, and funding, the level and mix of our conservation investments may need review.

e. Renewable Resources under the Voluntary Green Power Program.

Under a new state law that took effect in January 2002, we must offer additional "green power" to customers who want to pay for it. Initially, 40% of the dollars generated by this program will be spent on solar panels on school roofs and other public buildings. We are exploring more cost-effective renewable options for the use of the remaining 60% of the funds. These are expected to be very small purchases of renewable resources that are preferably local. They will not have a significant impact on our portfolio, but will contribute to diversification, the development of new technologies, and customer awareness of new, renewable sources of supply.

f. Potential New Large Loads

While new large loads did not materialize in 2001 as expected, requests for connection may increase as the economy recovers. The current ordinance dealing with new large loads seeks to keep the costs of serving these customers from affecting other customers. According to the ordinance, City Light is not obligated to meet the demand from new large load customers with its resource portfolio, but may instead require power for these customers to be developed separately. A few pending issues may affect the 2002 resource

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strategy update. The definition of new large loads leaves room for customers to state their needs in a manner that allows them to avoid the "new large load" classification. This gives them the right to be served with City Light's portfolio. A revision of the current ordinance, while not necessarily a part of the 2002 strategic resource update, may be appropriate. City Light may also need to develop policies for power acquired by a particular customer to be integrated into City Light's system.

6. Prepare for Longer Term Resource Decisions

a. Boundary:

This workhorse produces over 30% of SCL's power at a direct cost of \$1.47MWh. It began operation in 1967, and the current license expires in 2011. We have begun the preliminary work to renew the license for this incredibly valuable resource. No other resource decision in this decade will be as important.

b. New Renewables to Meet Load Growth:

The Earth Day 2000 resolution directed City Light to meet load growth with conservation and new renewable resources. In addition, it directed City Light to meet all of its customers' needs over the longer term with no net impact on greenhouse gases. A review of the timing, costs and benefits of this policy will be presented.

The expanded conservation program and the 20-year State Line wind contract have covered the first goal for many years of load growth, especially with the recent drop in load. The updated load projections will indicate when potential new acquisition of renewable resources may be required.

c. Diversification:

Some have suggest that City Light is too hydro-dependent and should try to diversify our resources. The updated resource strategy would consider the costs and benefits of diversification under the new load scenarios.

d. Generation CIP

City light needs to continue its regular plan of maintenance of its existing hydro resources. While some maintenance can normally be done without significant impact on generation, major repairs may require temporary reductions in generation. Information from the 2002 Strategic Resources Assessment will be useful to help decide on the timing of such maintenance activities. In addition, some CIP work may result in some changes in the generation capability and/or efficiency of existing resources, thus having some effect on our portfolio.

7. Financial Impact of the Resource Portfolio

Since City Light has sufficient resources to meet load in critical water conditions, City Light anticipates to have surplus energy to sell in some months even in the driest years. The value of this surplus to the utility is uncertain, as it depends on a number of factors, such as water conditions, market prices, customer load, etc. In the past City Light normally assumed its revenues and costs would be at the level resulting from expected

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conditions and set customer rates based on that assumption. In fact, some years (including 2000-01) the utility did not have the cashflow it planned for and had to meet cash shortfalls by a variety of approaches, such as imposing surcharges, cutting expenditures and issuing more debt. Given that City Light anticipates a substantial amount of its revenues to derive from the market sales of its energy surplus, the City Council adopted new financial policies last fall. These new financial policies, to be effective probably in 2004, mandate the utility to set rates at a level to ensure a positive net cash flow 95% of the time. This will require an evaluation of the value of the surplus resulting from the resource portfolio under a variety of water, market price, and load conditions to estimate the level that we are confident we will exceed 95% of the time.

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1 Policy Committee, the Council shall appoint an independent panel to review the report and
2 to make recommendations to Council regarding its conclusions and findings.

3
4 Adopted by the City Council the ____ day of ____, 2002, and signed by
5 me in open session in authentication of its adoption this ____ day of ____, 2002.
6

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8 _____
9 President _____ of the City Council

10
11 Filed by me this ____ day of ____, 2002.

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13 _____
14 City Clerk

15 (Seal)

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17
18 Attachment A: Strategic Resource Assessment 2002 -2003 Update

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STATE OF WASHINGTON - KING COUNTY

--SS.

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City of Seattle, Clerk's Office

No. TITLE ONLY RESOLUTION

Affidavit of Publication

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12th day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

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was published on

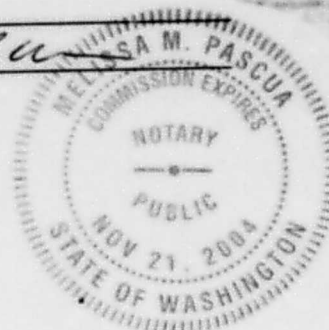
7/19/2002

J. Hedman
Subscribed and sworn to before me on

7/19/2002

Mel M. Pasqua
Notary public for the State of Washington,
residing in Seattle

Affidavit of Publication



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State of Washington, King County

City of Seattle
TITLE-ONLY PUBLICATION

The full text of the following resolution, passed by the City Council on July 15, 2002, and published here by title only, will be mailed upon request, or can be accessed electronically at <http://clerk.ci.seattle.wa.us>. For further information, contact the Seattle City Clerk at 204-5344.

RESOLUTION NO. 30494

A RESOLUTION approving, with modifications, the executive proposed scope of work for Seattle City Light's 2002-2003 Strategic Resource Assessment and establishing the need for an independent panel to review the findings and recommendations of the final Assessment.

Publication ordered by JUDITH PIPPIN, City Clerk.

Date of publication in the Seattle Daily Journal of Commerce, July 19, 2002.

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