Seattle City Light

Memorandum

DATE: May 31, 2011

TO: Seattle City Council Energy, Technology & Civil Rights Committee Members: Councilmember Bruce Harrell, Chair; Council President Richard Conlin, Vice Chair, Councilmember Nick Licata and Councilmember Mike O'Brien, members

FROM: Jorge Carrasco, Seattle City Light

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SUBJECT: Response to **SLI 18-1-A-1** "Requesting that City Light provide a detailed explanation of various benchmarking studies"

The City Council adopted a Statement of Legislative Intent that states:

> "City Light has participated in a number of benchmark studies over the last several year that compare its costs and performance in various areas with those of other utilities that have participated in the studies.
>
> While some of the benchmarks show the utility in a favorable light, notably in reliability and power quality, some do not. For example, the comparisons below from one such benchmarking study raise questions:

	Expense per Customer	Expense per Circuit Mile	Expense per MWh of Load	Employees per 100,000 Customers
Avg excluding City Light	$75.33	$2,822	$2.48	91.4
City Light	$103.00	$13,974	$4.06	225

> The Council would like to understand why City Light's numbers are so much higher than the average of all of the other utilities involved in the study, and asks City Light to provide a detailed and comprehensive analysis of the differences."

Response:
City Light welcomes the Council's interest in examining the operating and cost performance of the Utility and how it compares with others in the electric industry. As the SLI mentions, City Light has been engaging in benchmarking surveys for several years in order to obtain

information to improve productivity and the efficiency of operations. We characterize these as "surveys" rather than "studies" because the extent of validation of submitted data and follow-up on the causes of survey differences was limited. As we will discuss subsequently, these limitations raise some concerns about the strength of conclusions one should draw from some of this data.

However, we have learned from the initial surveys, and some of the data does give us cause for concern. We are committed to operating as effectively and efficiently as we can, and where we find evidence that we have opportunities for improvement, we will pursue such opportunities. To that end, we have taken steps recently to gain a more comprehensive understanding of our situation, with the goal of developing action plans to address gaps that warrant correction. We engaged the UMS Group in October of 2010 to provide an in-depth comparative assessment of our transmission, distribution and generation work areas. UMS specializes in utility benchmarking—in providing valid comparative data, the assessment of the causes for differences, and in identifying appropriate corrective actions. They have a comprehensive database of peer performance and cost data in these areas. We have been working closely with UMS in providing data and responding to their questions as they assess and compare City Light to other utilities (ranging from between 12 to over 30 utilities depending on which aspects of City Light's generation, transmission and distribution systems are being compared). UMS is currently finalizing their report. When City Light receives the report, we will review their findings and recommended areas for improvement, and develop an action plan to make progress on addressing these matters. We expect to provide the report and action plan to the Council by the end of July.

Pending that more comprehensive report from UMS, City Light does have some views as to certain of the 2008 survey results addressed in the SLI:

- The benchmarking data cited above was obtained in 2008 using 2007 data. Seventeen utilities participated in the survey, though for the particular statistics above, only 11 utilities (including City Light) provided information. With more than 3,200 electric utilities in the United States[1], and the wide variety of differences in such entities, the comparative results from such a small sample should be used cautiously, and should not be used to draw any definitive conclusions.
- City Light was the only utility in the 2007 survey with a network distribution system. As has been consistently shown in City Light's cost of service studies and reflected in rates, network costs both for installation and maintenance are significantly higher than the rest of the overhead system. For the higher costs, the network provides a higher degree of reliability. As the 2007 study did not adjust for variations in service or reliability levels, higher costs noted by City Light in this area may be warranted for this. In general, City Light supplies higher reliability to its customers, both in the network and on the overhead system.
- City Light was the smallest utility in the 2007 survey, and City Light's distribution system operates at 26kV, a non-standard voltage level. Transformer costs, for example, cost more than for utilities operating on standard voltage because the economies of scale from large production are not available. Since very few customers purchase their own

[1] http://eia.gov/cneaf/electricity/page/prim2/toc2.html

transformers, the rolled-in costs that are passed on through utility rates to customers are higher.

- City Light has the most densely populated service territory in the panel of companies included in the survey with almost 3,000 customers per square mile in 2007 while all other utilities with one exception (that utility had 900 customers per square mile) had less than 500 customers per square mile. This has multiple implications. Examples include City Light's ability to perform work during regular business hours--affected by the need to meet City requirements such as using police officers paid overtime to act as street flaggers, work that must be performed at night or on week-ends by crews paid overtime, and City permitting rules which limit the number of days available before a permit expires and City Light must pay for a new one.
- The other utilities in the 2007 survey in general indicate that they use one and two-person crews where City Light uses 2 and 4 person crews. The larger crew sizes affect the staffing levels per 100,000 customers and also increase the distribution costs both per circuit mile and per customer. Current labor contracts specify crew sizes and work rules for City Light.
- Other utilities do not have crews work on week-ends except to handle customer outages. In addition, many do not have coverage for the shift from 11:00 p.m. to 6:00 a.m. This provides an advantage to their distribution costs when compared to City Light's, as City Light has to pay overtime, while other utilities have staffed this shift using regular wage rates.
- The 2007 study included customer service personnel that were subsequently moved to the Customer Care division. The survey data submitted by City Light also used authorized rather than filled positions. This made it appear that City Light was overstaffed compared to other utilities. Furthermore, several of the utilities contract out line and field maintenance work. This lowers the average of the other utilities staffing levels per 100,000 customers. A comprehensive study would adjust for these factors, while less extensive surveys such as the 2008 survey we participated in did not.

For these reasons and others, additional study is required before definitive conclusions can be drawn about the 2008 survey. We believe the UMS study will be of significant value in helping us understand the extent to which the differences noted in the 2008 survey are appropriate given differences in our systems and service levels versus differences in practices that should be addressed to improve efficiency. We plan to provide the UMS study and City Light's plan for implementing recommendations in the study to Council by the end of July.