

Seattle City Light Review Panel

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

May 6, 2014

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

RE: Seattle City Strategic Plan Update for 2015-2020

Dear Mayor Murray:

We are pleased to submit our comments regarding City Light's updated Strategic Plan for 2015-2020 (the "2015-2020 Plan Update"). Since the original 2013-2018 Strategic Plan (the "Initial Plan") was adopted in the summer of 2012, we have received periodic progress reports from City Light leadership on its implementation. Beginning last December, we began reviewing proposed adjustments and additions to the Initial Plan. In addition, we spent much of the last year and a half considering potential changes to City Light's rate design policy, an initiative incorporated in the 2015-2020 Plan Update. Our deliberations have benefitted from reviewing the results of two separate rounds of public outreach, one focused on proposed investments and the rate path, the other focused on rate design policy.

The Panel strongly encourages your support for the 2015-2020 Plan Update. We believe the Plan has and will continue to provide strong policy guidance for City Light, transparency and rate predictability for customers, a positive statement to bond rating agencies, and an important means of holding the Utility accountable to decision-makers and public. The Panel believes the four core areas of strategic key objectives of the Initial Plan are still appropriate, and that the 2015-2020 Plan is best viewed as an update of the Initial Plan.

We divide our comments below into four parts:

1. Progress in the first year of the Initial Plan
2. Proposed Adjustments to maintain the 4.7% average annual rate path in 2015-2018
3. New Initiatives and Efficiencies in the 2015-2020 Plan Update
4. Rate Design Proposal for 2015-16

Progress in Implementing the Initial Plan

In our view, City Light has made impressive progress in delivering on the commitments in the Initial Plan. There has been good progress on most of the 36 strategic investments outlined

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in the Initial Plan. City Light has exceeded the efficiency targets for 2013 and 2014. While there have been some significant adjustments in the timing and budget for a few of the 36 strategic investments, the Utility has been transparent about these matters and, we believe, is taking appropriate corrective action. We commend City Light on implementing an impressive tracking system to provide detailed quarterly updates on the status of all 36 Strategic Plan initiatives.

We would call out three successes in particular of the last year. First, City Light received an upgrade in its bond rating in 2013, apparently due in part to the fact that the Utility has a 6-year strategic plan. Second, the Utility has made significant progress towards its goal of reducing employee on-the-job injuries. Third, as noted, the Utility has exceeded its efficiency targets to date, and reports it is on track to meet the full target of \$18 million by 2018.

Proposed Adjustments to Maintain the 4.7% Annual Average Rate Path in 2015-2018

We support the actions the Utility proposes in the 2015-2020 Plan Update to maintain the 4.7% average annual increase in rates in the first four years of the plan (2015-2018). Overall, the six-year Plan Update results in an average annual rate increase of 4.4% each year from 2015 through 2020. A tremendous amount of effort went into the development of the Initial Plan and the rate path presented—including a baseline forecast premised on many assumptions. The most significant assumption that has not been realized is the projected 0.6% per year increase in load growth: current projections cut that in half to 0.3% per year. With less demand comes less revenue and more pressure on rates to recover largely fixed costs.

As events have unfolded, the Utility has to choose between additional rate increases, *or* making offsetting adjustments to the timing of investments and implementing other operating changes. City Light has proposed the latter path and we support this decision. The actions the Utility has identified in order to maintain the 4.7% annual average rate path through 2018 appear to us to be a prudent set of choices, supporting a cornerstone commitment by the Utility in the Initial Plan. (It is important to note that the 4.7% rate path excludes increases in Bonneville Power Administration rates in excess of inflation, and excludes any surcharges or credits on rates resulting from changes in the Utility's Net Wholesale Revenues.)

It is possible that some of the fixes identified to maintain the rate path rate may not hold over time, and future events may further impact rates. This bears careful monitoring by the Panel and City leaders. The Panel has also discussed the challenge of continuing rate increases above inflation. While this is a concern, it is not an anomaly. Nationally, electric utilities project ongoing significant rate increases as massive historic investments in generation and distribution systems must be replaced, renewed and upgraded. City Light is in the same position. We are

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therefore pleased that—as discussed below-- the Utility has found a path to *reduce* average rates increases in the 2015-2020 period down to a level of 4.4% average annual increases.

New Initiatives and Efficiencies in the 2015-2020 Plan Update

Baseline rates—defined as the rates required in order to fund the cost of delivering current levels of service, already approved initiatives, and meeting known regulatory requirements—constitute over 85% of the Utility’s rate requirements. Baseline costs are increasing over the 2015-2020 period for several reasons: inflation in the cost of doing business; demand increasing more slowly than forecast; and the cost of the 36 strategic investments in the original Plan. The Utility calculates that the average annual baseline rate increase for the 2015-2020 will be 4.0% a year.

The rate of baseline increase in rates is reduced slightly by efficiencies (0.3% annual average reduction), and as noted, the Utility reports it is on track to deliver \$18 million a year in ongoing efficiencies by 2018. The Utility has not proposed *additional* efficiency targets in the 2015-2020 Plan Update beyond the \$18 million. Some of the efficiencies in 2013 and 2014 have been one-time savings from property sales and thus other savings must be found to continue to meet targets. On the other hand, some of the strategic investments now underway should provide operating savings that can help meet efficiency targets. Also, some of the hoped for efficiencies will require support from City leaders in adjusting union contracts. **It is important to the Panel that the Utility come back to decision-makers and the Panel before the next Strategic Update with a specific plan for increasing efficiencies in the period from and after 2018, and we appreciate the commitment of City Light’s leadership to do so.**

City Light has proposed three new initiatives that, after accounting for efficiencies, will result in average annual rate increases of 4.4% per year over the 2015-2020 planning period. As noted, this is a decrease from the rate increases in the 2013-2018 period of 4.7%. **The Panel supports all three initiatives, for reasons summarized below:**

- **Service Centers Master Plan & Investment:** The Utility is wise to address the issue of replacing its two aging service centers, particularly given that one is located in a soil liquefaction zone at high risk in a major earthquake. The Plan includes \$106 million for this project—the low end of cost estimates, which range as high as \$450 million. Thus, there could be significant additional costs associated with this project, depending on the outcome of the master planning process, which would make it difficult to scale back to a more moderate path on overall rate increases.
- **Distribution Automation Technology:** This is a modest investment with significant benefits for customer service levels, and is expected to result in substantial operating

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savings as well. This investment builds on the Initial Plan commitment to Automated Metering Infrastructure (AMI).

- **Accelerate Reduction in Rate Stabilization Account Target Levels to Better Match Net Wholesale Revenue Forecasts:** The Panel supports SCL's recommendation to shift from a historical forecasting methodology to a forward-looking methodology budgeting for net wholesale revenue. For the last several years, **forward-looking** wholesale power revenue forecasts more accurately predicted the Utility's actual Net Wholesale Revenues by tens of millions of dollars. That budget gap must be filled by the Rate Stabilization Account (RSA). The Initial Plan included a key initiative to begin better aligning wholesale revenue forecasts and budget assumptions. The Utility proposes to accelerate this initiative, meaning City Light will more quickly reach a point where forecasts and budget assumptions align. This should reduce the frequency and size of surcharges that must be imposed on customers.

In sum, the Panel strongly supports the 2015-2020 Strategic Plan Update. It provides transparency about the Utility's priorities. It ties rate increases to specific actions and investments. It helps the Utility communicate with City leaders and customers. It helps the Mayor and Council hold the Utility accountable for delivering on rates and services. The 2015-2020 Strategic Plan Update illustrates both a solid record of accomplishment by City Light thus far and a measured path forward through 2020, appropriately balancing the need for highly reliable electrical service, efficient operations, and predictable and affordable rates.

Rate Design Proposal for 2015-2016

One of the major tasks assigned to the Panel when it was established in 2010 by Council Ordinance 123256 was to review City Light's rate design. Rate design is not about the *amount* of revenue that the Utility recovers but rather, it is about *how and from whom* that revenue is collected. Rate design policy has been the focus of Panel deliberations for much of the last 18 months. The 2015-2020 Strategic Plan Update includes a proposed initiative to adjust current electric rate design policy in the next biennium, 2015-2016. The primary focus of the proposal is to increase the amount of revenue recovered through fixed charges, as opposed to variable charges, to more closely reflect the nature of the Utility's costs. To achieve this, the proposal increases base service charges and significantly increases demand charges.

The Panel (excepting one member) supports the 2015-2016 rate design proposal, although the rationale for that support differs amongst Panel members. Most Panel members agree that in order to increase the Utility's financial stability and advance the concept of customers paying

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more of the actual cost of their electric service, City Light should increase the amount of rate revenue generated from fixed demand and service charges. All Panel members desire to continue to send a strong price signal to customers to be efficient in their use of energy, and acknowledge there is a tension between this goal and increasing fixed cost recovery. The Panel urges the City to carefully monitor how changes in rate design impact energy use by City Light customers.

The Utility made some key adjustments to its original rate design proposals that helped secure support of Panel members, including: (1) adjusting the pricing on residential energy blocks such that the impact on residential bills will be minimal; (2) scaling back the size of demand charges for General Service customers; and (3) working to increase enrollment in the low income rate assistance program.

The Panel believes that the long-term trajectory on rate design requires more discussion: we hope and expect this will be a matter for deliberation in developing the next Strategic Plan update.

It should be acknowledged that the proposed changes will affect non-residential customers differently based upon their load profile. It will increase cost pressure on some and decrease it on others.

While supporting the proposal, the residential customer representative would prefer to postpone any increases in fixed charges for residential customers until the next Strategic Plan update, when this could be discussed as part of a longer-term strategy for residential rate design that includes consideration of changes brought about by AMI.

The non-profit energy efficiency advocate representative does not support the rate design component of the Strategic Plan. He has concerns with the strategic direction of the proposal and has agreed to articulate those concerns during any public comment period conducted in association with the Plan.

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We thank the Mayor and Council for the opportunity to submit this comment letter, and for your continued support of our work. We would be pleased to meet with you to answer any questions you may have about our comments.

Sincerely,

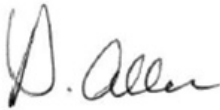
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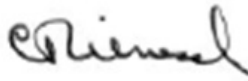
Stan Price, Co-Chair
Panel Position 3:
Non-Profit Energy
Efficiency Advocate



Eugene Wasserman, Co-Chair
Panel Position 8:
At-Large Customer



David Allen
Panel Position 5:
Commercial Customer



Tom Lienesch
Panel Position 1:
Economist



Chris Roe
Panel Position 6:
Industrial Customer



Julia M. Ryan
Panel Position 2:
Financial Analyst
Representative



Sue Selman
Panel Position 7:
Low-Income
Communities Advocate



Eric Thomas
Panel Position 4:
Residential Customer

(Position 9 Currently Vacant)

cc: City Councilmembers
Jorge Carrasco, General Manager and CEO, City Light