

Draft-For Deliberative Purposes

City Light Strategic Plan Preferred Path and Rate Impacts

Presentation to City Light Review Panel

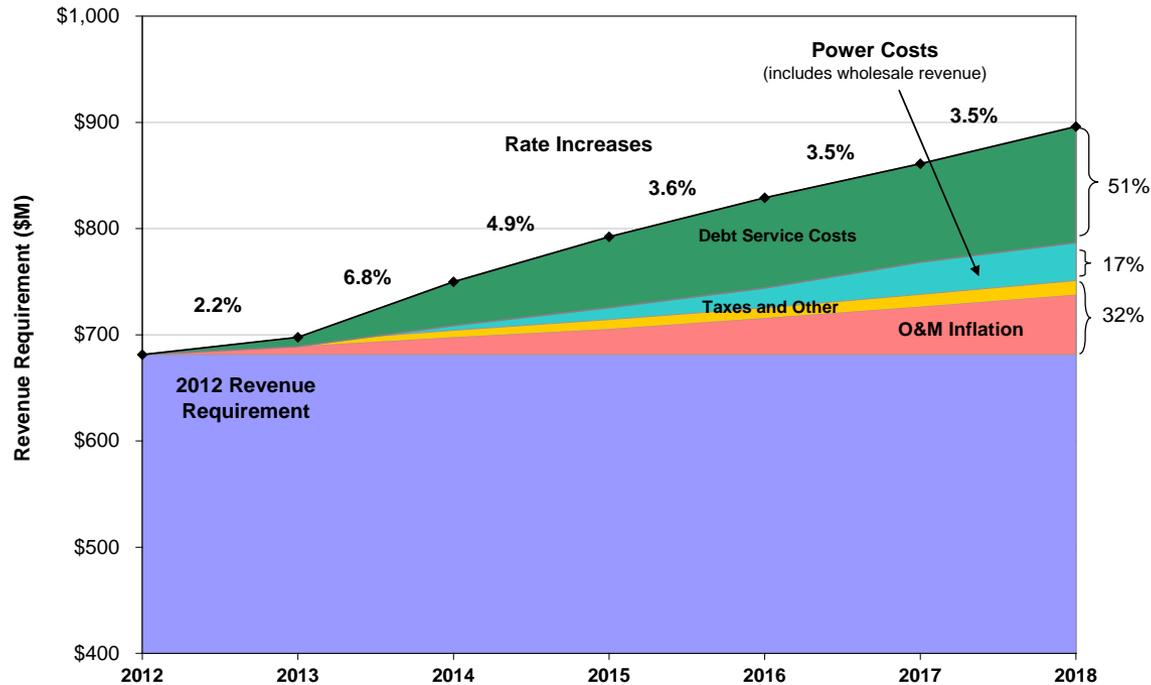
November 4, 2011

Overview

- Baseline
- Overview of Alternatives
- Preferred Path
- Two Higher Service/Cost Paths
- Conclusion/Next Steps

Baseline

- Funding needed to continue providing customers the same general level of service as today.
 - Moderately conservative assumptions for inflation, load growth, surplus energy sales (vs. past years)



- More aggressive assumptions could reduce prospective rate increases to as little as 1.5% per year

- No funding to address key challenges and difficulties.

City Light Strategic Strengths and Challenges

Strengths

Past investments have resulted in a robust hydro-based generation resource portfolio, with sufficient power through at least 2020

Low rates and strong support for public power

Strong tradition of environmental stewardship and support for conservation and carbon neutrality

Challenges

Customers want more energy reliability and improved outage response, despite aging infrastructure

Improved efficiency needed to reduce overall operating costs

Desire for stable, predictable, and transparent rates

Safety record lags behind peers

Attracting and retaining talent to counterbalance high # of retirements

We recommend investments to position the Utility to best meet customer needs

Six Year Avg Rate Increase

Baseline	4.1%
Add Efficiencies	- 0.4%
Add Preferred Path Initiatives	+1.0%

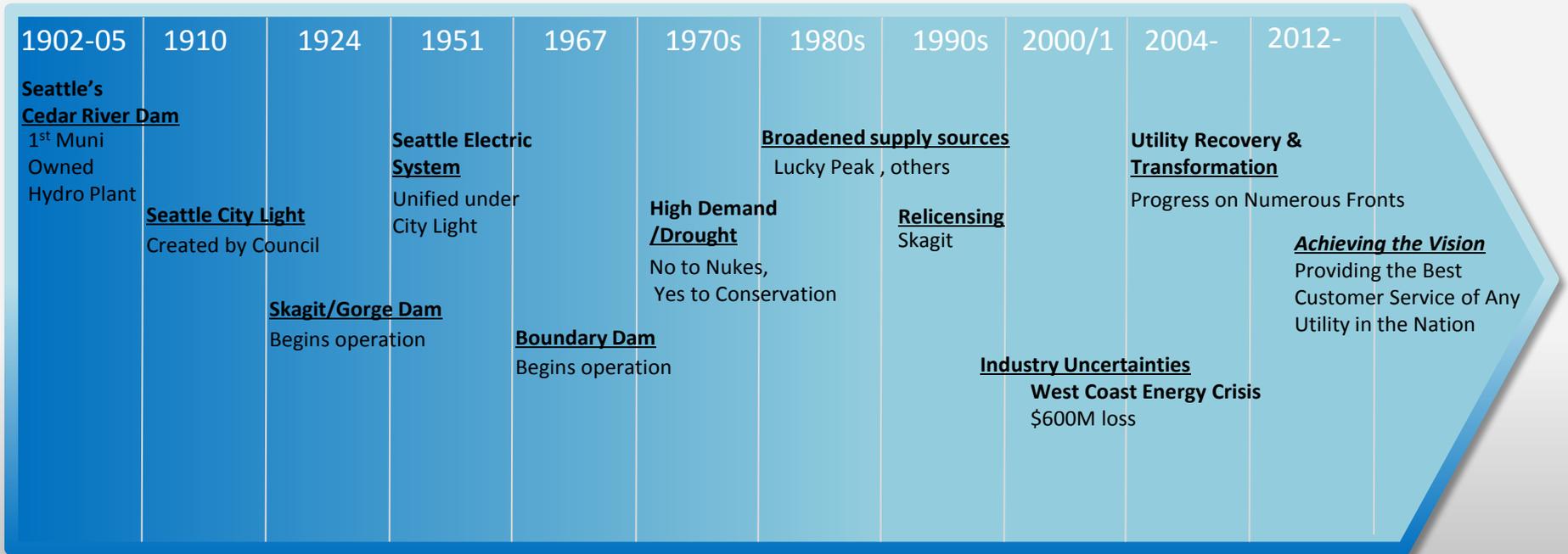
Alternatives:

Add Higher Reliability Initiatives + 0.3%

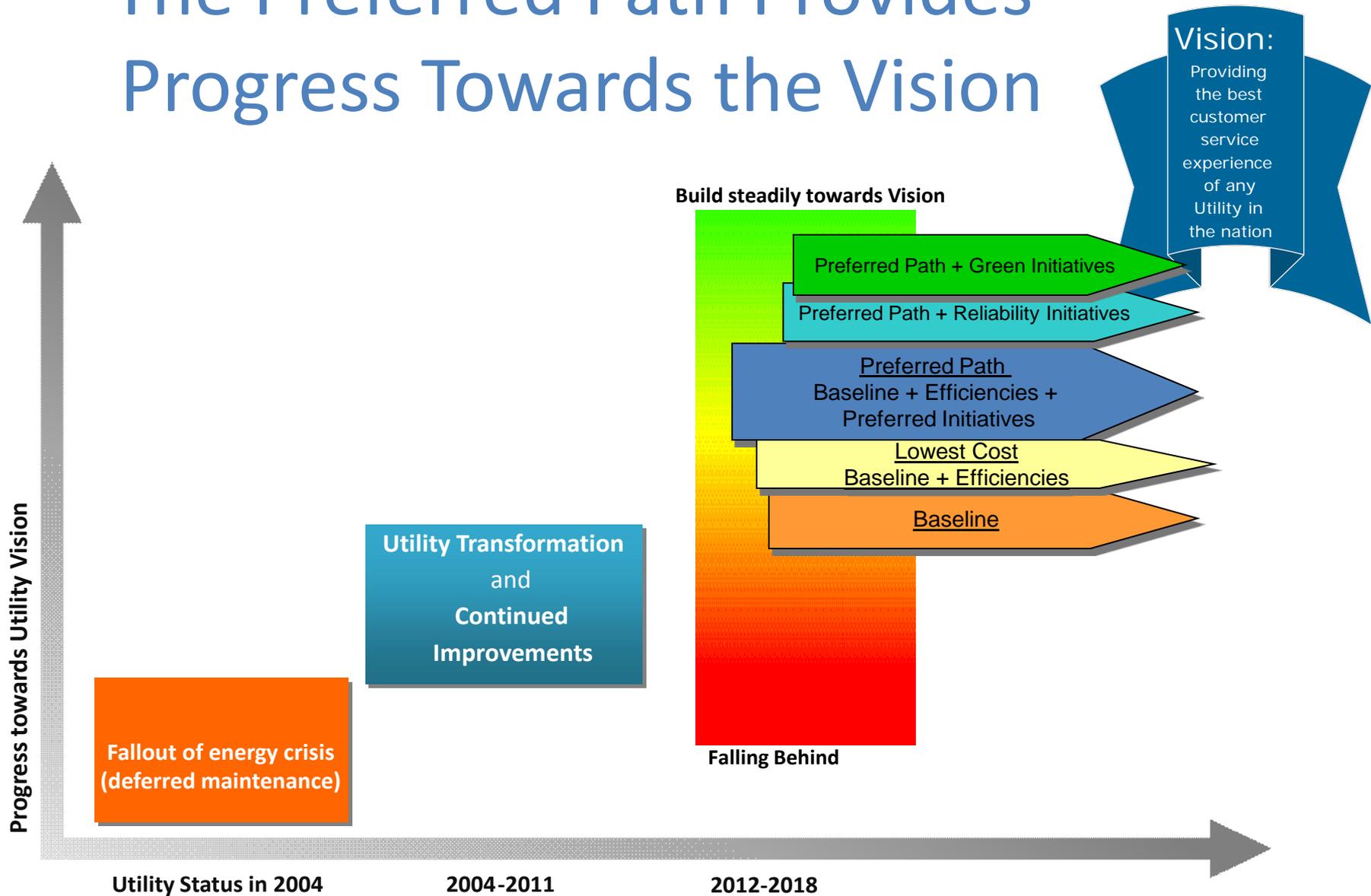
Add Enhanced Green Initiatives + 0.4%

Preferred Path = 4.7%

Wise Investments Have Paid off



The Preferred Path Provides Progress Towards the Vision



Preferred Path: Prudent Strategic Investments

1. Continued support for key strengths
2. Capture operational efficiencies
3. Cost-effective responses to key challenges through additional investment in:
 - Improve Customer Experience and Rate Predictability
 - High Performance Workforce/ Safety
 - High Performance Organization
 - Continue Leadership in Conservation and Environmental Stewardship

Improve the Customer Experience and Rate Predictability



Context/Drivers	Key Strategies (groups of Initiatives)
<ul style="list-style-type: none"> • System reliability, investing in aging infrastructure and rate predictability: key findings from interim outreach 	<ul style="list-style-type: none"> • Improve and ensure continued system reliability (NoDo Substation, cable replacement, regional transmission, distribution mgmt, etc.) • Improve customer interface and information exchange capacity (Web, Advanced Metering) • Improve efficiency of our legacy hydro-electric generation assets. • Provide greater rate predictability and transparency



- Cost of 0.62% (\$2.66 per month) more in rate increases annually.

High Performance Workforce /Safety

Context/Drivers	Key Strategies
<ul style="list-style-type: none">•Unacceptable business risks if the utility fails to improve its safety record, or implement strategies to manage the impending wave of retirements and our record in retaining skilled employees.	<ul style="list-style-type: none">•Improve workforce safety•Attract and retain workers with expertise specific to electric utilities•Pay competitively•Invest more in employee training•Increase workforce flexibility and efficiency



- Cost of 0.13% (\$0.56 monthly) more in rate increases annually.

High Performance Organization

Context/Drivers	Key Strategies (groups of initiatives)
<ul style="list-style-type: none"> • Limited opportunities to engage policymakers through existing budget process • Customers should have confidence we are performing as efficiently and effectively as possible • Aging IT systems • Newly adopted financial policies 	<ul style="list-style-type: none"> • Improved communication about Utility priorities and progress • Improve efficiency through benchmarking and process improvements. • Improving external procurement process and supplier performance • Replace outdated technology systems • Monitor and revise fiscal policies as appropriate to ensure continued fiscal strength



- Saves 0.09% (\$0.38 monthly) in rate increases annually.

Continue Leadership in Conservation and Environmental Stewardship

Context/Drivers	Key Strategies
<ul style="list-style-type: none"> • Initiative I-937 requires additional procurement of renewable energy • Seattle residents more likely to become “first adopters” of electric vehicles • Utility exposed to risk of climate change • Customers want City Light to continue environmental leadership 	<ul style="list-style-type: none"> • Meet I-937 renewable requirements, & aggressive conservation targets in current Council adopted 5-year plan • Improve effectiveness in conservation program • Support customer adoption of electric vehicles (infrastructure/rates) • Address long-term resource risks with climate change • Enhance Environmental Leadership • Reduce environmental liability associated with our activities.



• Cost of 0.03%(\$0.06 monthly) more in rate increases annually.

Beyond the Baseline: Significant Cost Drivers

Initiative	Benefit	O&M	Capital	Rate Impacts
↓ Efficiencies	Improve work practices in T&D, Generation and elsewhere	\$10.5 / year <i>(\$56M over six years)</i>	\$7.5 / year <i>(\$42 million over six years)</i>	-0.36%
↑ North Downtown Substation	Reliability / enhance economic engine for City	-	<i>\$129M over six years</i>	0.28%
↑ Advanced Metering Infrastructure	Foundation for improved customer experience	<i>Saves \$8.6M over six years</i>	<i>\$119M over six years</i>	0.31%
↑ Workforce	Ready, productive workforce	\$4M/yr. <i>\$25M over six years</i>	<i>\$8M over six years</i>	0.13%
↑ All Others				0.30%
↑ Net Wholesale Revenue (a change is <u>not</u> currently modeled in our preferred strategy).	Reduces likelihood of surcharges	-	-	TBD

Alternative: Higher Reliability Path

- Increase pace of infrastructure renewal effort

Project	Current Schedule	Current Annual CIP Budget	Higher Reliability Path Schedule	Higher Reliability Path Budget
Underground Cable Replacement	5 miles	\$2.5 M	10 miles per year	\$5 M
Neighborhood Cable Injection	22 miles	\$5 M	44 miles per year	\$10 M
Substation Transformer Replacement	1 per year	\$3.5 M	3 per year	\$10 M
Substation Automation (RTU only portion of this project budget)	Install Remote Terminal Units in 2 substations per year	\$0.4 M	4 per year	\$1 M
Wood Pole Replacement and Overhead Equipment Replacement	2,000 poles per year	\$6.5-10 M Per year	3,000 poles per year	\$15 M
Transmission and Feeder Circuit Breaker Replacement in Substations	4-6 per year	\$3 M	8-10 per year	\$5 M
Substation Protection and Relay Replacements	4 per year	\$1.5 M	10 per year	\$ 3 M
Total		\$25.9 M		\$49 M

- Cost of 0.3% more in rate increases annually.

Alternative: Enhanced Green Path

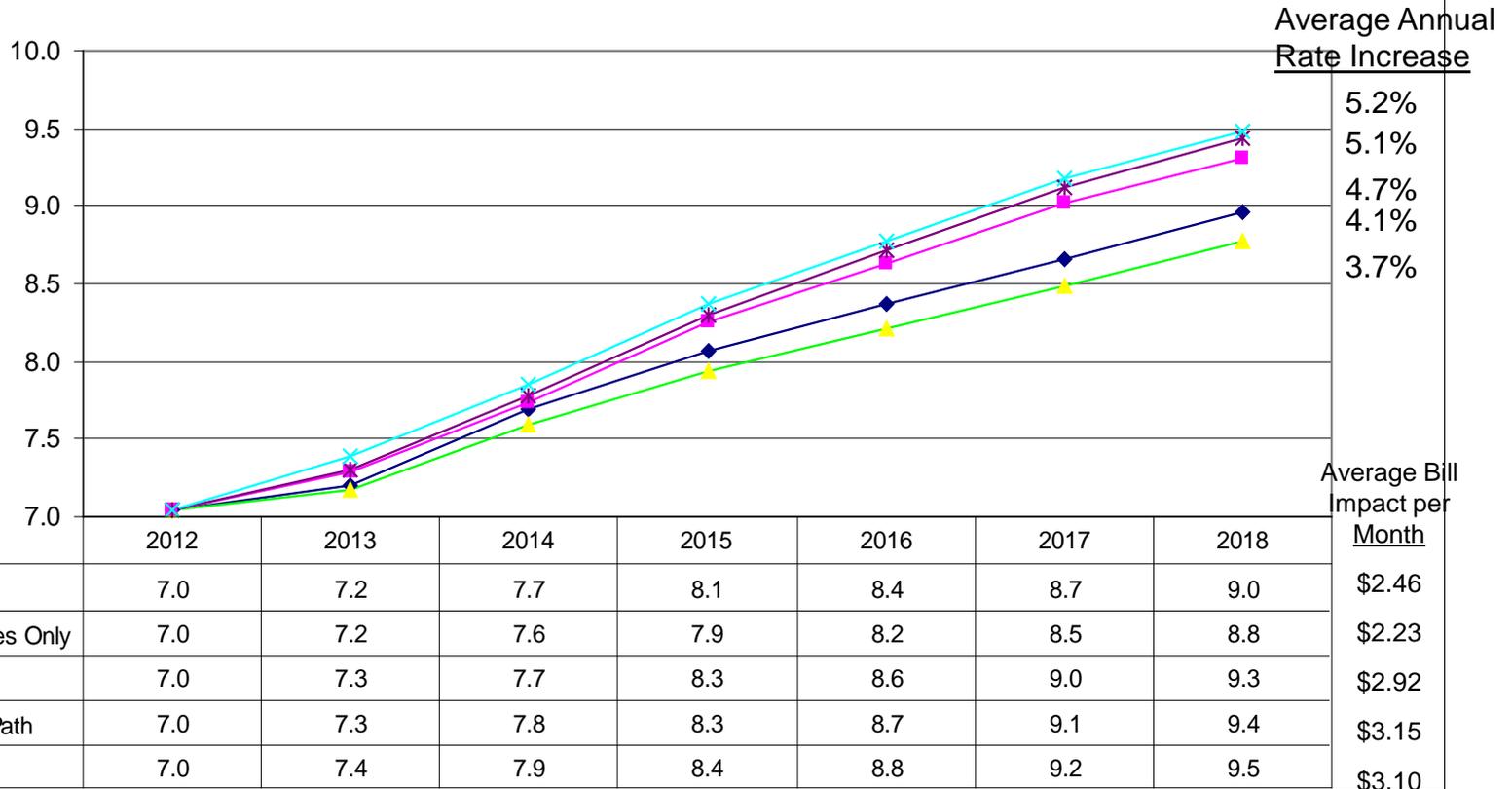
- Enhancements in three areas:
 - 1. Further Reduce Climate Change Impacts
 - 2. Further Reduce environmental risk of SCL Operations
 - 3. Increase Energy Efficiency and Solar Resources for City Light Customers

Element	Capital/ Deferred O&M	O&M
1. Shift purchase of greenhouse gas offsets to support local appropriate electrification projects Assist in the development of infrastructure for electric vehicles Encourage electricity for appropriate non-road uses		\$3.5M \$0.5M \$1M
2. Accelerate PCB-free utility initiative (CR9)		\$1M
3. Further increase customer energy efficiency (+4 aMW of conservation) Utility-scale solar PV in Eastern Washington Incentives for customer solar PV installations	\$15.8M \$1.14M	\$1M
Total	\$17M	\$7M

- Cost of 0.4% more in rate increases annually.

Comparative Rate Increases

Average Retail Rate cents/kWh



Why select the Preferred Path?

Rationale	Customer Benefits
Strategic action now to meet evolving customer needs and demands	<ul style="list-style-type: none"> • Two way information flow about energy usage • Maintaining and improving reliability as the City grows
Supports stewardship of assets and environment: highly reliable, carbon neutral utility	<ul style="list-style-type: none"> • Maintains utility environmental leadership, consistent with Seattle's values
Improve efficiency and reliability	<ul style="list-style-type: none"> • Doing the most with ratepayer dollars • Maintaining the infrastructure for reliability
Addresses pressing workforce challenges	Safe, prepared and effective workforce to provide <i>"the best customer service of any Utility in the Nation"</i>
Provides rate stability	<ul style="list-style-type: none"> • Increased transparency and predictability <ul style="list-style-type: none"> – Further improved with Net Wholesale Revenue fix • Rate increases are moderated <ul style="list-style-type: none"> – 4.7% is equivalent to a 2.5% increase on the average US residential electric bill

Next Steps

- Finalize recommendation on Net Wholesale Revenue
- Present recommendation on AMI
- Take Feedback on Preferred Strategy
- Finalize Drafting of Report
- Conduct Final Outreach