



STRATEGIC PLAN UPDATE

Seattle City Light Review Panel

January 19, 2016



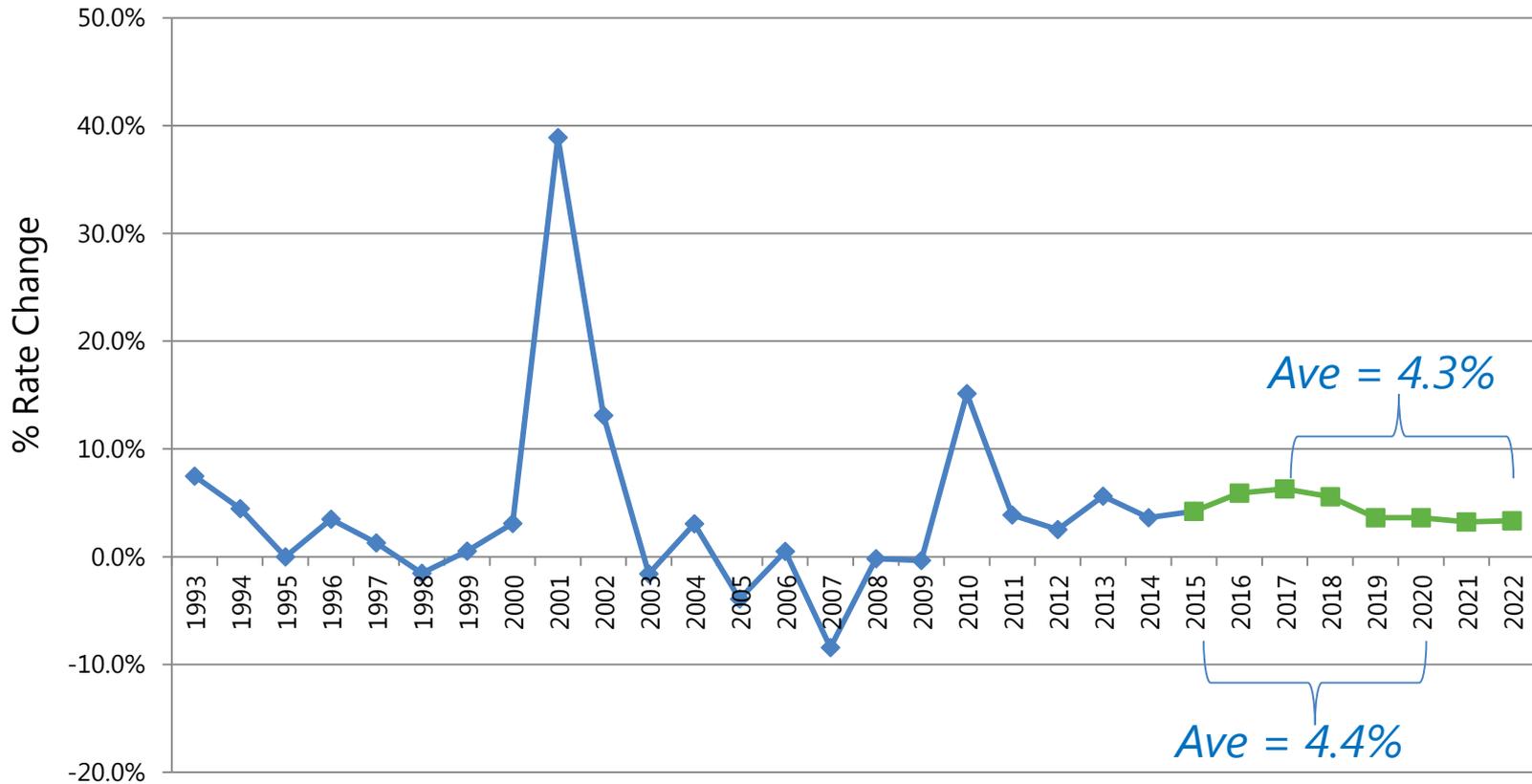
TODAY'S PRESENTATION

1. Strategic Plan Key Objectives
 - Goals and Metrics
 - Accomplishments
2. Major Project Updates
3. Efficiencies
4. Preliminary Draft Strategic Plan
 - Rate Path



WHY A STRATEGIC PLAN?

Rate Increases - History vs. Future



STRATEGIC PLAN KEY OBJECTIVES

GOALS AND ACHIEVEMENTS



STRATEGIC PLAN: FOUR KEY OBJECTIVES

1. Improve Customer Experience and Rate Predictability

2. Increase Workforce Performance and Safety Practices

3. Enhance Organizational Performance

4. Continue Conservation and Environmental Stewardship Leadership

1. IMPROVE CUSTOMER EXPERIENCE & RATE PREDICTABILITY

GOALS AND METRICS

Goal: Efficiently manage the energy system, respond quickly to customer concerns and outages, and for customers to be able to predict and budget their utility costs.

MEASURES

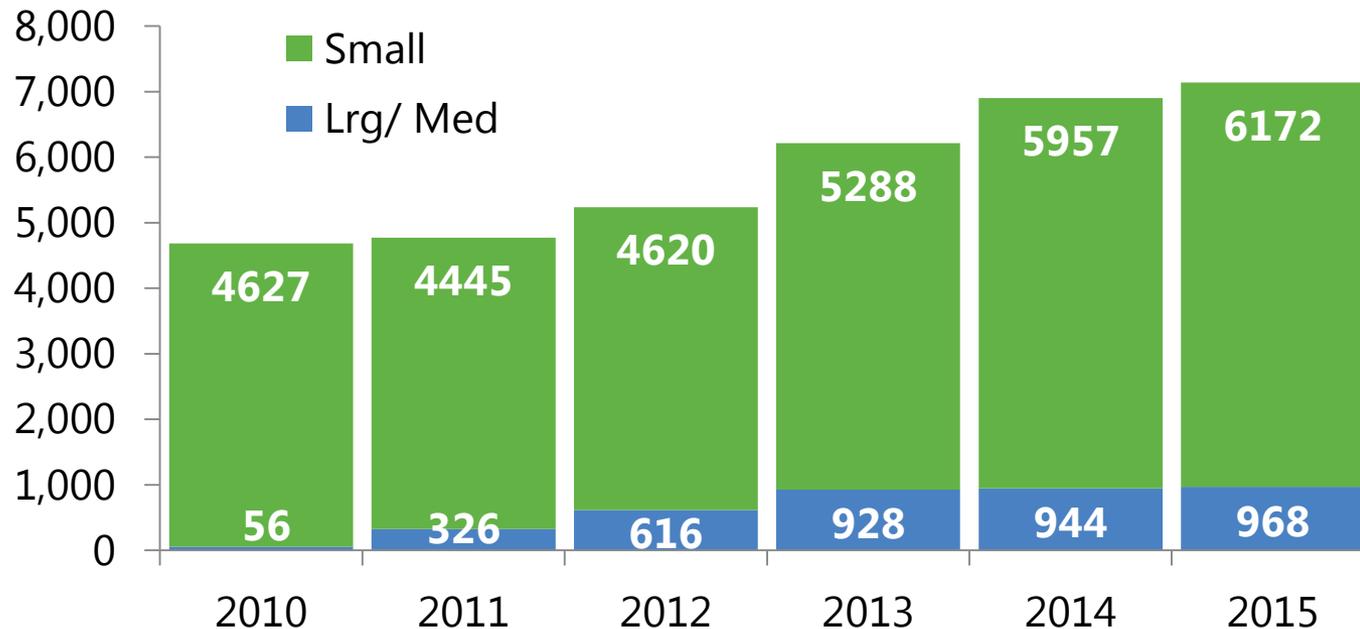
	2003	2008	2012	2013	2014	2015
Outage Duration: SAIDI minutes	77.8	88.4	69.0	68.7	69.7	62.5
Outage Frequency: SAIFI Number of events	1.6	1.0	1.0	0.9	0.9	0.5
JD Power West Region Residential Ranking	#18	#11	#2	#3	#3	#3
JD Power West Region Business Ranking	N/A	N/A	#4	#1	#1	#2
Utility Discount Program # of Participants	12,702	12,351	13,415	14,000	16,941	20,000+

Note: most 2015 metrics are as of November 2015.

DRAMATIC GROWTH IN SERVICE CONNECTIONS

Maintained level of customer service in spite of a 49% increase in the number of new connects over 5 years

Service Connections Requested 2010-2015



1. IMPROVE CUSTOMER EXPERIENCE & RATE PREDICTABILITY

Accomplishment: Reduced frequency and duration of outages.

Investments:

- Distribution Automation reducing frequency and duration of outages, especially in leafier suburban areas.
- Outage management system improves crews' speed and efficiency of outage response, while keeping customers informed of outage response progress.
- Vegetation management program delivers 500 miles of tree trimming per year.



1. IMPROVE CUSTOMER EXPERIENCE & RATE PREDICTABILITY

Accomplishment: New and improved infrastructure strengthens the distribution system and meets needs stemming from economic growth.

Investments:

- New Denny Substation: construction of first new substation in 30 years to provide system stability and meet large growth in South Lake Union area.
- Underground Cable Replacement and cable injection extends life of cable, and saves on replacement costs.
- Energy Management System (EMS) and dispatching software to improve operations and reduce outages.
- Streetlight system upgrades – residential completed and now arterials.

1. IMPROVE CUSTOMER EXPERIENCE & RATE PREDICTABILITY

Accomplishment: Improved customer interfaces to meet expectations of sophisticated and tech-savvy customers.

Investments:

- New Customer Billing System
- Automated Metering Infrastructure
- Web Portal
- Flexible billing
- KUBRA Ebill
- Enhanced website



1. IMPROVE CUSTOMER EXPERIENCE & RATE PREDICTABILITY

Accomplishment: Increased Utility Discount program participation as a result of widespread outreach effort and improved application process.

Investments:

- Dedicated staff for improving communication and recruitment for UDP.
- Increased outreach to eligible customers, 46 program enrollment events.
- Extended enrollment periods and streamlining of sign-up process.
- 300 home energy walk-through audits.



2.

INCREASE WORKFORCE PERFORMANCE AND SAFETY

GOALS AND METRICS

Goal: Proactively manage impending wave of retirements and be able to retain highly skilled workers, and continuously improve our employee safety record.

MEASURES

	2003	2008	2012	2013	2014	2015
Hiring Cycle Days	184	57	49	42	24	28
Vacancy Rate % of FTE	9.6%	6.3%	7.0%	7.0%	5.0%	5.4%
Accident Rate TRR	13.1	6.9	7.0	6.3	5.3	6.2

2. INCREASE WORKFORCE PERFORMANCE AND SAFETY

Accomplishment: Reduced vacancy rate through improved hiring practices and retention efforts.

Investments:

- Improved hiring practices to reduce time to fill a position, as well as reduce recruitment, advertising and relocation costs.
- Internship and Apprenticeship Programs developed and expanded to counterbalance retirement wave and lay foundation for a new generation of employees.
- Broadening and redesigning job classifications to better align with industry practices.



2. INCREASE WORKFORCE PERFORMANCE AND SAFETY

Accomplishment: Renewed focus on training.

Investments:

- Organizational Excellence Leadership development program deployed to 691 leaders.
- Implemented computer skills training program and online learning library,
- Learning and Talent Management System deployed.
- Technical Training Center will house centralized delivery of apprenticeship, technical and safety training.



2. INCREASE WORKFORCE PERFORMANCE AND SAFETY

Accomplishment: Promote a culture of safety, reducing ergonomic injuries, workers compensation cost, and time away from work.

Investments:

- Utility-wide promotion of safety culture (e.g. Safe Habits, Safe Worker Program, “The Other 16”, safety stand-down, new employee safety training and PPE kit, etc.)
- Site assessments and root cause analysis completed for all sites.
- Driver safety programs implemented (Zonar Telematic System, driving simulators) to reduce driving-related accidents in the field.
- Focus on efficiently resolving Workers’ Compensation claims, and increased modified/light duty opportunities.
- New ergonomic mitigation programs and investments in arc flash-resistant clothing contribute to decrease workplace hazards and potential for injuries.

3.

ENHANCE ORGANIZATIONAL PERFORMANCE

GOALS AND MEASURES

Goal: Be in the top 10 percent of peer utilities on measures of efficiency and effectiveness, and to reduce baseline costs by an ongoing \$18 million per year, at a minimum.

MEASURES

	2003	2008	2012	2013	2014	2015
Average Rate ¢/kWh	6.2	5.6	6.8	7.2	7.6	8.1
Rate Ranking among 25 Major US Cities	#5	#1	#1	#1	#1	-
Debt Service Coverage	1.56	2.05	1.81	1.85	1.86	1.69
S&P Credit Rating	A-	AA-	AA-	AA	AA	AA
Efficiencies \$M	N/A	N/A	N/A	\$9.9	\$22.4M	\$24.2M

3. ENHANCE ORGANIZATIONAL PERFORMANCE

Accomplishment: Robust cyber security and disaster recovery programs and systems now in place.

- Disaster recovery
 - Fully-deployed disaster recovery backup facilities in Liberty Lake, WA.
 - Dedicated team assembled in 2013 leads business continuities studies and regular drills with critical business teams.
- Cyber Security
 - Formerly non-existent cybersecurity program is now built-out and robust.
 - Full time team assembled, asset based program installed to protect “crown jewels”.
- Compliance
 - NERC-compliant and looking ahead to deployment of CIP V5.

3. ENHANCE ORGANIZATIONAL PERFORMANCE

Accomplishment: Major IT implementations under way to replace and improve outdated technology.

- New customer information and billing system (NCIS) replaces outdated billing system in use for 15 years.
- Energy Management System (EMS) upgrade offers remote terminal units which allow operators to see field data in real-time. Full go live later this year.
- Passport Inventory system reimplementations completed in Fall of 2015 to a supported version with enhanced functionality.
- PeopleSoft Financials reimplementations being completed City-Wide
- Oracle RAC database platform provides superior reliability and availability for critical database applications.
- IT portfolio of over 50 concurrent projects is robust and ambitious.

3. ENHANCE ORGANIZATIONAL PERFORMANCE

Accomplishment: IT strategy and roadmap, rigorous project management operations in place.

- Vision 2020 Document
 - Full listing of strategic IT projects on timeline
 - Blueprint for complete IT/OT architecture
 - Basis for system selection and data architecture
- 2015 Technology Campaign
 - Network design to consolidate and protect all 9 SCL networks (IP and point to point) – Completed by Bell Labs
 - Full technology strategy for City Light projects and governance – Completed by Strategy&

3. ENHANCE ORGANIZATIONAL PERFORMANCE

Accomplishment: Financial policies with prudent adjustments have enabled continued financial strength, stable rates, strong credit ratings and debt cost savings in the face of historically low energy market prices and instances of extreme drought.

- Financial policies analyzed and re-affirmed, with minor adjustments.
 - Wholesale revenue budget reduced to a more conservative value.
 - Discretionary transfers of surplus operating cash to stabilize the RSA.
- Strategic debt portfolio management reduces overall cost of debt service.
 - Reduced levels of working capital and defer bond issues.
 - Alternative Pursuit of federal government subsidized financing (CREBs) and new variable rate products result in lower debt service costs.

3. ENHANCE ORGANIZATIONAL PERFORMANCE

Accomplishment: Evolving business practices and organizations to better meet modern-day requirements and challenges.

Investments:

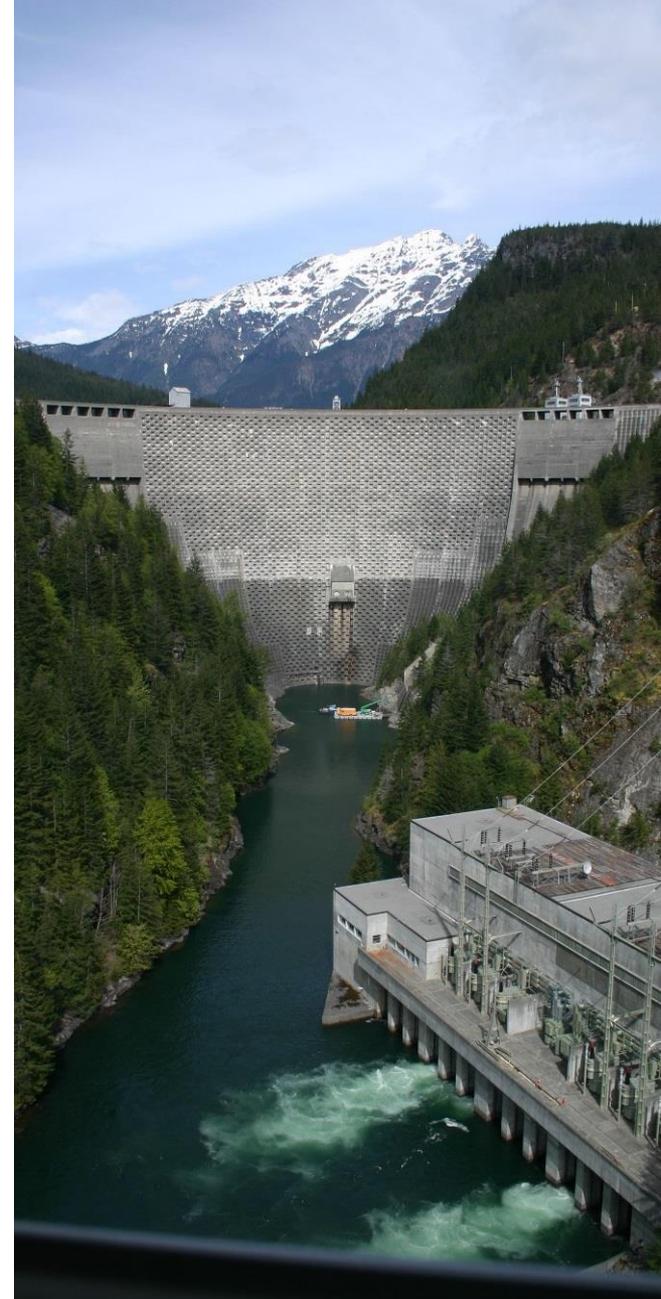
- Internal Audit function infuses rigor into internal processes and facilities external audits. Control (SOX) implementation complete, annual risk assessment and work plans, assistance with State and City Audits, annual trading audit savings and external audit assistance
- Business Intelligence Program datamart build-outs deliver next-generation report designs for NCIS and other large Oracle projects.
- Conservation organizational redesign reflects evolution of energy efficiency landscape and new technologies.

3. ENHANCE ORGANIZATIONAL PERFORMANCE

Accomplishment: Legacy hydroelectric system efficiency maintained and improved.

Investments:

- Boundary Project successfully relicensed in 2103, providing protection and enhancement of native fish and wildlife, expansion of recreational and cultural amenities, protection of water quality, all while preserving valuable operational flexibility.
- Actively planning for Skagit Relicensing process, commencing soon.



3. ENHANCE ORGANIZATIONAL PERFORMANCE

Investments:

Comprehensive Generator Rewind Plan keeps maintenance on prudent schedule, providing additional capacity and lower outage rates in the long term.

Major Rewinds

Transformers

- Completed** 2013 – Boundary 55 rewind and runner replacement
- Completed** 2014 – Boundary 53 emergency rewind
- Completed** 2015 – Boundary 56 rewind and runner replacement
- 2017 – Diablo 31 rewind and governor/exciter replacement
- 2018 – Diablo 32 rewind and governor/exciter replacement
- 2018 – Boundary 51 rewind and breaker 151 replacement
- 2019 – Boundary 52 rewind and breaker 152 replacement
- 2020 – Boundary 54 rewind and breaker 154 replacement
- 2021 – Diablo 35 rewind and runner replacement
- 2022 – Diablo 36 rewind and runner replacement

- 2016 – Boundary 55 transformer replacement
- 2016 – Ross 44 transformer replacement
- 2017 – Boundary 56 transformer replacement
- 2017 – Ross 42 transformer replacement
- 2018 – Boundary 54 transformer replacement
- 2018 – Boundary 51 transformer replacement
- 2019 – Boundary 52 transformer replacement
- 2021 – Boundary breaker 153 replacement
- 2016 – Boundary 53 transformer replacement

4.

CONSERVATION & ENVIRONMENTAL LEADERSHIP

GOALS AND MEASURES

Goal: Remain the nation's greenest utility, making investments to help adapt to the impacts of climate change, while seeking ways to strengthen financial resources in environmentally-responsible ways.

MEASURES

	2003	2008	2012	2013	2014	2015
Conservation aMW added	7.0	10.1	13.0	14.7	16.0	15.8
I-937 Compliant	Na	Na	3%	6%	6%	6%
GHG Emissions Metric tons	296,219	0	0	0	0	0

4. CONSERVATION & ENVIRONMENTAL LEADERSHIP

Accomplishment: Nation's greenest utility and industry leader in conservation and environmental stewardship.

- Greenhouse gas neutral since 2005 through carbon reduction initiatives and purchase of high-quality carbon offsets.
- I-937 compliance met or exceeded, audits successfully completed
- National leader in conservation
- Climate Action Plan - The Climate Adaption Plan was completed and three new research projects to better understand the impacts of climate change on utility operations were funded
- Four successful Community Solar projects that generate more than 75,000 kWh of clean, local solar energy each year.

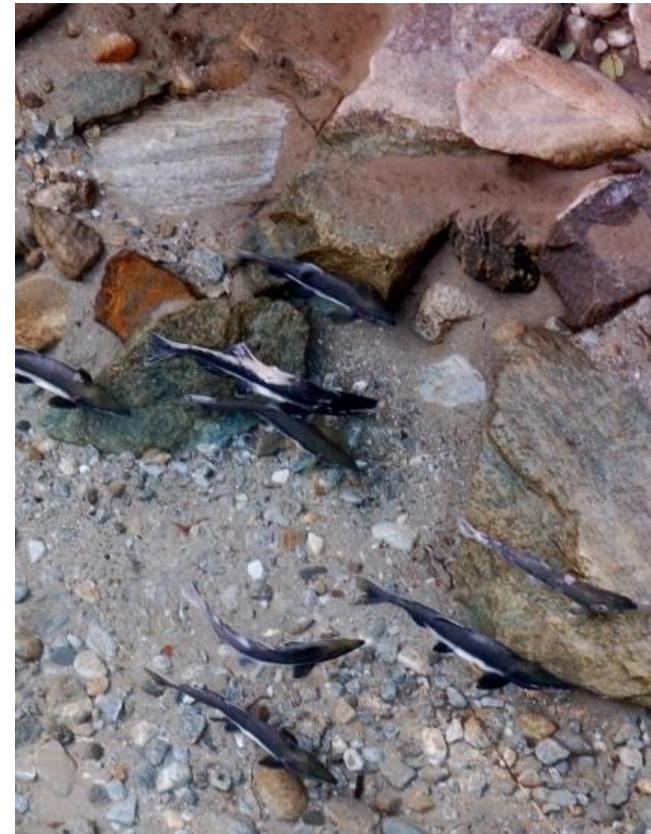


4. CONSERVATION & ENVIRONMENTAL LEADERSHIP

Accomplishment: Continued environmental stewardship and track record for responsibly addressing environmental liabilities.

Investments:

- Acquired 230 acres along the Skagit River, protecting valuable spawning habitat.
- New decant facility at South Service Center pre-treats electrical vault storm water and waste locally, reducing greenhouse-gas emissions and saving disposal costs.
- Working to eliminate PCBs in City Light's system. Program to track PCB levels in equipment, and replacing and responsibly disposing of transformers with high levels of PCBs.
- Ready participation in extensive EPA-mandated environmental remediation of various Duwamish River sites.



4. CONSERVATION & ENVIRONMENTAL LEADERSHIP

Accomplishment: Recent Acknowledgements and Awards

- 2015 Environmental Champion Award; awarded by Cogent Reports of Market Strategies International. City Light placed in the top three electric, natural gas and combination providers in four regions across the US. Results are based on more than 25,000 consumer performance ratings for 125 leading utilities nationwide.
- City Light's Climate Change Strategic Advisor received an award from the Northwest Energy Coalition for leadership in preparing the utility for the potential impacts of climate change.
- Washington State Department of Ecology Wastewater Treatment Plant Awards for Diablo Wastewater Treatment Plant
- Washington State Department of Ecology Wastewater Treatment Plant Awards for Newhalem Wastewater Treatment Plant
- Won an award from the Department of Archeology and Historic Preservation
- Seattle was recognized in 2015 as one of the top five U.S. cities for energy efficiency in ACEEE's Energy Efficiency Scorecard and City Light was profiled as part of their report on the country's highest performing municipal utilities
- Best Digital Ad in E Source's 2015 Utility Ad Awards Contest





MAJOR PROJECT UPDATES



MAJOR PROJECTS MILESTONES 2015 UPDATE

- Denny Substation
 - **2015 Milestone:** Network contract awarded
 - **Started:** Utility relocation, network civil construction
 - **Next Steps:** Facility bid award January 2016
 - **Completion:** Facility to be energized Q1 2018
- New Customer Billing System (NCIS)
 - **2015 Milestones:** Two production dress rehearsals, 100% of reports needed for day-one operations complete.
 - **Next Steps:** Training for 600+ system users, continued testing and defect correction
 - **Expected In-service:** Q2 2016
- Advanced Metering Infrastructure (AMI)
 - **2015 Milestones:** AMI system integration discovery, scope of work for implementation
 - **Next Steps:** Finalize vendor contract, change management RFP.
 - **Expected completion:** 2018



MAJOR PROJECT MILESTONES 2015 UPDATE

- Energy Management System (EMS)
 - **2015 Milestones:** Test case gap analysis, Open Systems International (OSI) system build and quality inspection
 - **Next Steps:** Factory acceptance testing in Feb 2016, system installation in Q2 2016.
 - **Completion:** Q3 2016
- Technical Training Center
 - **2015 Milestones:** facility design, Wetland Mitigation Plan
 - **Underway:** Permitting applications
 - **Next Steps:** Complete construction contract
 - **Facility Open:** 2018
- Utility Discount Program (UDP)
 - **2015 Milestones:** 46 program enrollment events, 300 home energy walk-through audits, updated guidelines, enrollment at 20,000+.
 - **Next Steps:** Section 8 pilot project, development of on-line application with automated link to new billing system.
 - **Completion:** Mayor's initiative expects 28,000 new participants by 2018



INITIATIVE UPDATES



UTILITY OF THE FUTURE INITIATIVE

- The industry is evolving and we must stay ahead of the curve
- One full-time staff member will be dedicated to long-range strategic planning, reporting to Chief of Staff
- Role will be to coordinate strategic studies and launch new initiatives across the utility
- Example of a new initiative launched is the Transportation Electrification initiative



TRANSPORTATION ELECTRIFICATION INITIATIVE

- **Revise Transportation Electrification Initiative**
 - Existing initiative calls for education and promotion of electric vehicles
 - Electrification beneficial to utility and ratepayers, even after utility investment
 - Currently developing plan to encourage and enable electrification (especially for fleets, shared vehicles, public transit, and non-road)
 - Will reallocate existing budget to invest in supporting infrastructure and incentives.



REAL ESTATE INITIATIVE

- Accelerate the delivery of value from real estate
 - Real estate falls into two categories
 - Surplus to the needs of the utility
 - Needed in the future, but currently non-productive
 - Lower rates to customers by:
 - Monetizing surplus property (\$15M over 6 year period)
 - Renting properties currently non-productive
 - Reducing security and vegetation management costs
 - Requires streamlining of existing surplus approval processes for real estate

MASTER SERVICE CENTER PLAN

- Restructure the South Service Center Initiative
 - Analysis supports replacing the South Service Center, rather than seismically stabilizing the facility
 - Align investment in service center with the utility of the future strategy to occur over the next 12-18 months.
 - Complete the assessment of build options and customer and employee impacts
 - Deferred project by two years



EFFICIENCIES



EFFICIENCY GOAL AND IMPACT OF NEGOTIATIONS

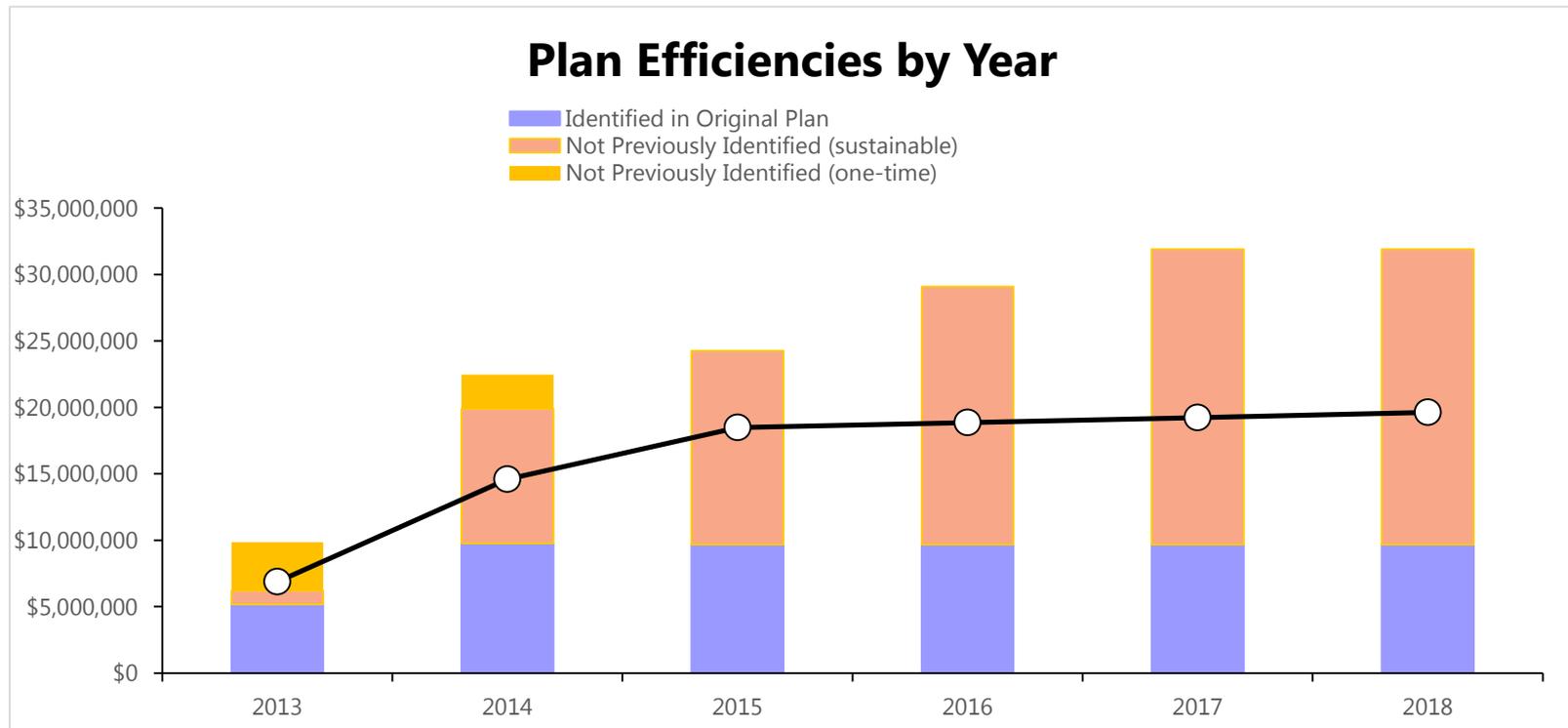
- Original Strategic Plan (2013-2018) highlighted opportunities to save \$18M per year by 2015, the majority delivered in areas of transmission, distribution and generation practices.
- Original targets were based on savings initiatives from collective bargaining.
- Delay in effective date and full savings not achieved in negotiations, reduced the ability to achieve anticipated savings by \$~7M per year.

Examples of items anticipated in strategic plan but not approved:

- One person service crews as first responders for outages and emergencies
- Allowing any qualified electrical worker to operate overhead or underground switching

2015 EFFICIENCY GOAL – NEW SAVINGS

Achievement of savings from the original plan, plus ongoing efforts to identify new sustainable and one time efficiencies are expected to yield substantial savings above the original targets.



EFFICIENCY COMMITMENT GOING FORWARD

- Moving forward the Utility commits to increase its delivered annual savings to \$28M per year.
- Annually commitment to report to the Panel on achieved results and any additional savings uncovered.
- Notable areas:
 - Financing
 - Operations
 - Support Services
 - Power Marketing
- Criteria for measurement is rigorous:
 - Require a direct action by management, and,
 - Savings must result in a measurable reduction to the revenue requirement
 - Items routinely excluded after review

EFFICIENCY COMMITMENT GOING FORWARD

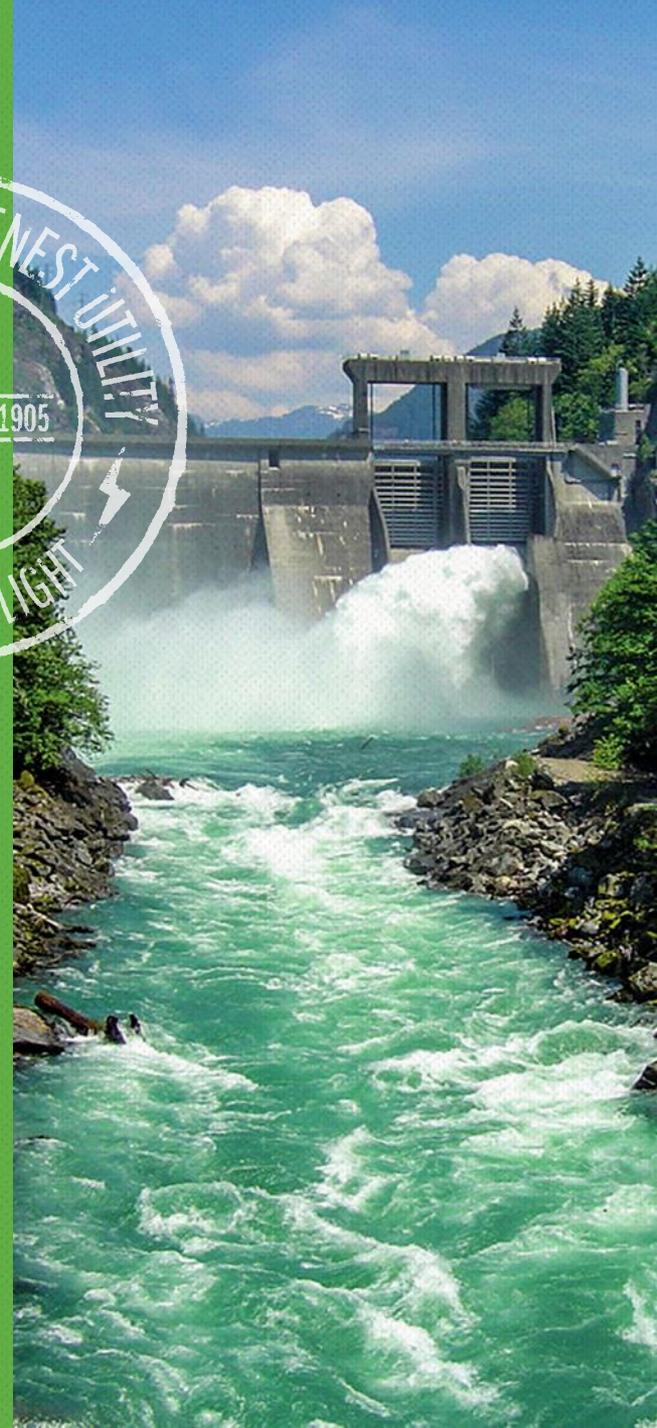
Strategic review of alternatives to traditional financing produced a significant reduction in debt service costs.

Alternative Investments	Annual Savings in M
CREBS	\$ 1.3
Variable Rate Debt	\$ 4.2

Strategic Mgt of Issue	
Backstop of City Pool	\$ 3.1
Tighter Mgt of Issues	\$ 5.2
Refunding	\$ 3.4



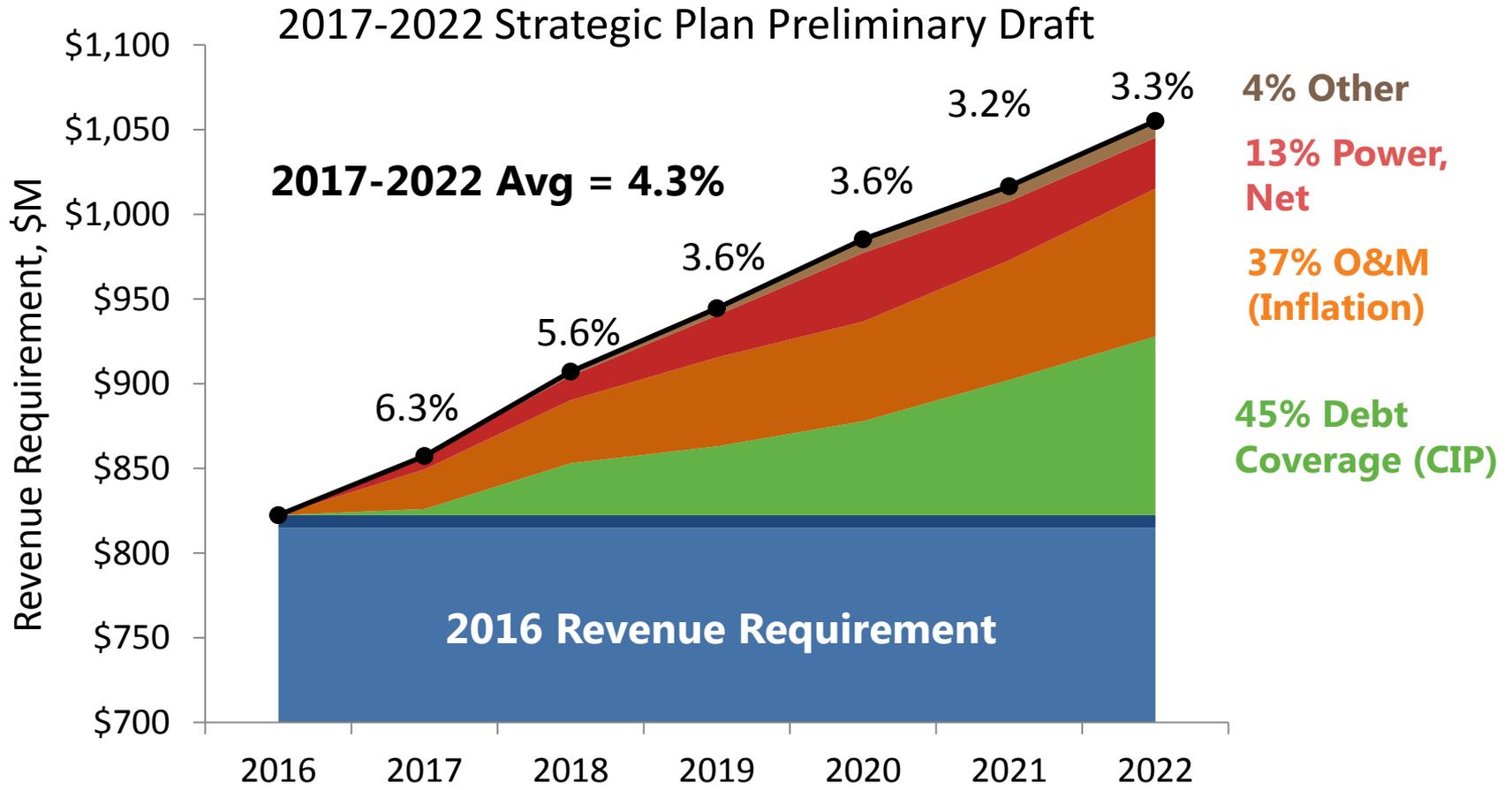
STRATEGIC PLAN
2017-2022
PRELIMINARY DRAFT
RATE PATH



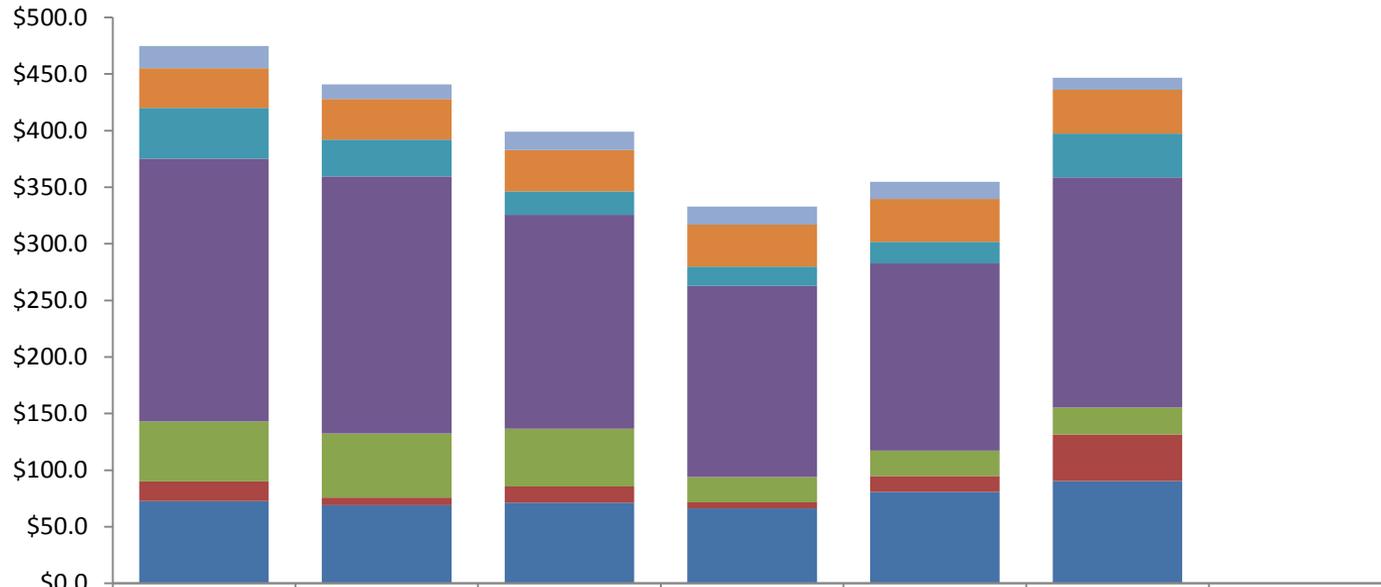
WHAT'S CHANGED IN THE REMAINING FOUR YEARS OF THE EXISTING PLAN?

1. Lower retail sales
 - New load forecast down ~1.5%
2. Higher O&M costs
 - Higher labor costs and City allocations in 2016
3. Higher power costs
 - Mostly 2015 BPA rate increase (rate impact already realized through BPA passthrough)
4. Significant debt service savings
 - Lower interest costs, refunding savings

STRATEGIC PLAN PRELIMINARY DRAFT: 4.3%



CIP PROGRAM



	2016	2017	2018	2019	2020	2021	Total 2016-2021
Other Deferred	19.7	13.1	16.2	16.0	15.3	10.7	90.9
Conservation	35.0	35.7	36.4	37.1	37.9	38.6	220.8
General Plant	45.0	32.6	20.8	17.2	18.8	38.7	173.1
Distribution	232.1	227.0	188.9	168.7	165.6	203.4	1,185.8
Substation	52.8	56.5	51.0	22.4	22.4	23.9	229.0
Transmission	17.6	6.9	14.3	5.2	14.0	41.0	99.0
Generation	72.6	69.0	71.4	66.3	80.8	90.4	450.6
Total Expenditure	474.8	440.8	399.0	333.0	354.8	446.7	2,449.2



CITY LIGHT

OUR VISION

To set the standard—to deliver the best customer service experience of any utility in the nation.

OUR MISSION

Seattle City Light is dedicated to exceeding our customers' expectations in producing and delivering environmentally responsible, safe, low-cost and reliable power.

OUR VALUES

Excellence, Accountability, Trust and Stewardship.

