City Light Review Panel Meeting
Meeting Minutes

Date of Meeting: March 29, 2012

MEETING ATTENDANCE					
Panel Members:					
Name		Name		Name	
David Allen	x	Stan Price	✓	Debbie Tarry	x
Tom Lienesch	✓	Julie Ryan	✓	Eugene Wasserman	✓
Matt Lyons	✓	Sue Selman	✓		
Staff and Others:					
Brian Brumfield	✓	Tony Kilduff	✓	Paula Laschober	✓
Maura Brueger	✓	Calvin Chow	✓	Kelly Enright	✓
Kim Kinney	✓	Councilmember O'Brien	✓	Bob Kinsella	✓
Suzanne Hartman	✓	Sahar Fathi	✓	Rollin Fatland	✓
Jorge Carrasco	✓	Phil West	✓		
Karen Reed	✓	Jim Baggs	✓		
Steve Kern	✓	DaVonna Johnson	✓		

Call To Order

The meeting was called to order at 1:00 p.m.

Karen Reed welcomed everyone to the meeting and began with a review and approval of the agenda. She noted that Stan Price is participating in today's call by telephone. The agenda was approved.

Approval of Minutes

The meeting participants reviewed the draft meeting minutes of February 24, 2012. The minutes were approved as submitted.

Presentations / Information

There was no public comment offered for today's meeting.

Chairs Report:
Eugene Wasserman reported that he and Stan Price are scheduled to meet with the Mayor on April 19th. They also have a meeting set for April 16th with Superintendent Carrasco.

The meeting group turned their attention to the topic of executive compensation. Since DaVonna Johnson needed to leave the meeting early, Karen asked if anyone had questions for her. The Panel asked if the cost of funding competitive salaries is included in the Preferred Path and DaVonna answered yes; it nets out to about $3M over 6 years. She also noted that the utility's

recommended proposal would allow them to adopt a compensation philosophy to be able to set individual compensation within bandwidths; this does not mean that everyone automatically gets paid at a higher rate. The general consensus of the group was that the Panel supported this proposal. It was noted that the utility has to pay market salaries in order to retain the top talent.

Suzanne Hartman provided an update on outreach efforts to date. She reported that the outreach meetings have been going well. The comments heard at the meetings align to certain topic areas noted in the materials. Next week the Utility will be presenting to the Burien Council and then going out to focus groups afterwards. The online survey ends tomorrow. When all of the comments are received, Cocker Fennessy will take the survey and do analysis on it. Assuming that the Panel's recommendation is forthcoming in early April, the Strategic Plan draft should be completed in mid-April and sent to the Mayor; the Mayor would transmit it to Council in May. Ultimately the Mayor will make the decision on what he wants to send to Council.

Several Panel members noted they had attended one or more of the outreach sessions.

Karen Reed welcomed Bob Kinsella, the Smart Grid Program Manager for SAIC (Science Applications International Corporation). Bob provided a presentation on the AMI business case results for City Light covering the state of the AMI industry and a business case overview for the Utility. AMI represents a two-way communication opportunity where previously AMI only allowed for one-way communication. The industry continues to evolve. Many factors guide AMI selection and weighting of benefits vary by utility. Bob noted the importance of a careful choice of vendor and technology. AMI technology selection is usually driven by communications and there are different types you can buy (i.e. radio based systems, power line based systems). The basic information technology issues can be substantial, especially when you're trying to integrate with legacy systems. Many utilities who are going to AMI first install an up to date MDMS (meter data management systems) and Customer Information System (CIS). Bob underscored the importance of having a good MDMS and CIS in place because these enable the storage and management of the tremendous volume of data that starts coming into the system once an AMI solution is in place.

Bob explained that he has observed the evolution of AMI since 1997. City Light would not be an early adopter of AMI. He identified business case key inputs, key outputs, and the traditional and future benefits of smart grid offerings.

Bob reviewed the estimated AMI costs and said the initial identified cost for City Light would be about $70M (not including the supporting Customer Information System and MDMS). He expects the costs of meters to go down over time. SAIC's model calculates the cumulative NPV breakeven year for City Light to be 2024. The first three years reflects the utility's initial $70M cost for AMI. SAIC estimates that the life of the utility's AMI assets would be 15 years, including replacement of the new digital meters.

The Review Panel Members discussed the merits of AMI. They noted that it seems there is not a lot of choice and that City Light will eventually have to replace the existing analog meters. The decision to make an AMI investment looks to have positive net value. The Panel concurred that

it makes sense to move forward towards AMI, but they cautioned the Utility to proceed only after the MDMS and CIS systems are in place, and to take the time to study the investment and be mindful of the pitfalls—particularly the public roll-out, given privacy concerns that have surfaced in other communities. They asked that City Light keep communicating with the Panel and stakeholders about progress of this program and suggested periodic check-ins around key project milestone.

Superintendent Carrasco stated that the Utility plans to keep the Panel, Council, the Mayor, and public informed on this item. They will plan for the possibility of delays or challenges that might come up and take the time to make sure they are communicating well to stakeholders.

Brian Brumfield, City Light's interim C.F.O., provided a report to the Review Panel on City Light's six year strategic plan efficiency effort. He directed their attention to the handout which provided a summary of where the Utility is with efficiencies and how they plan to address them. He stated that City Light did a deeper analysis on the efficiency recommendations contained in the UMS study. The analysis allowed them to see that 17 of the changes identified produced little or no savings, 7 could produce savings but would require re-negotiation of existing labor contracts, and 12 could produce savings and be implemented without changes to existing labor contracts. Discussion ensued and the Panel asked if they could get a brief summary describing what the 12 non-labor contingent projects include. Phil West said that he would provide this to the Panel. The Panel asked if operational efficiencies could be brought back as part of ongoing tracking of progress in implementing the Strategic Plan. Panel Members noted the importance of the City supporting City Light's effort to address labor challenges.

The group talked briefly about Matt Lyon's thoughts on governance and the impression that to truly be a high performing group, there has to be something done on it. Some members of the Panel felt that it would be better to talk about governance in the next round of strategic planning discussions. General consensus was to assign this as a future workplan topic.

The question was raised on if the outreach events received more comments on the bolder environmental green path or the higher reliability path? Suzanne Hartman replied that the bolder environmental path had more comments given than the higher reliability path. She elaborated that the prevalent theme heard at the public outreach was the concern about rates.

Further to the Panel's inquiry, Steve Kern, City Light's Power Supply and Environmental Affairs Officer, provided information to describe the bolder environmental initiative path. He referred to materials distributed to the Panel indicating what kind of environmental initiatives are contained in the baseline, the preferred path, and the bolder environmental path. Things that would be found in the latter include more environmental, conservation and solar investments. This path would also seek to accelerate programs to eliminate PCBs from our transformers, encourage the use of electricity for appropriate non-vehicle uses, and assist in the development of infrastructure for electric vehicles.

Steve explained that the cost of solar is coming down which presents an opportunity for incentivizing customers so a project becomes more economically feasible. Superintendent Carrasco mentioned the community solar project developed at Jefferson Park. That project helps the community make sustainable energy choices and eliminates some of the barriers for people who want solar energy but can't install panels at their home or business.

Discussion took place on the environmental initiatives. The Panel generally concurred that the Utility is already aggressively promoting programs on many of these things and that it does not make sense to push forward on the Path 5 bolder environmental initiatives at this point in time. They acknowledged that although these projects have positive benefits there seems to be a lot of pushback and concern from people regarding costs and rising utility rates. The Panel encouraged the Utility to emphasize their current success on energy efficiency and green investments. Stan Price commented that he thought it important to not get caught in the short term condition of where the markets are today and what load balances are today. He said there's a good chance the market may be different than conditions today. He felt that it is important to think about investments in energy efficiency as a long-term resource and benefit.

Brian Brumfield referred to the handout with respect to the net wholesale revenue (NWR), RSA target level and deferral of principal. In today's environment of lower revenue and softening natural gas prices, he felt it more important than ever for us to be more conservative in our NWR assumptions. He explained the approach which would help smooth the projected year to year rate impacts. The city bond advisor did not feel that the utility's original proposal to both draw down the RSA balance and to defer the payment of bond principal would be received well by rating agencies. Instead they suggested (and the utility modeled and agreed) that we extend the term of the bonds from 25 yrs to 30 yrs, and that we refinance existing bonds at current favorable rates and use the gain on that in the short term to transition away from high wholesale revenue forecasts (bond refinancing are usually spread over the remaining life of the bonds). In both instances the size of the net wholesale revenue assumptions is the same (i.e. lowers over time to a much more realistic level). The Panel concurred that more conservative NWR assumptions are appropriate given current information, and endorsed the Utility taking steps as presented to avoid rate shocks and increase rate predictability.

Calvin Chow commented that getting to a more conservative forecast is important. There are different perspectives from the utility and the city debt managers. There was significant back and forth discussion with the city debt managers in incorporating into finance's model and making sure that the debt managers were comfortable in the approach too.

Karen Reed asked the Panel Members for comments on the Baseline. There was concern on some items where the impacts of the resulting rate increases were tough to accept. Generally the Panel Members said they supported the Preferred Path 3.

Tom Lienesch mentioned that he heard the concerns about the rates going up 4.7% every year. Some mistakenly thought that it was an increase of 4.7% cumulative. He suggested that the communication be made clearer so that people understand what the increase is every year.

Action Items

Karen Reed said she would draft a summary outline of the key points and issues from today's meeting and circulate it to the Panel next week for comment. The goal is to have a consensus outline completed in time for the Co-Chair's meetings with the Superintendent and the Mayor later this month.

Adjournment

There being no further business, the meeting was adjourned at 4:00 p.m.