"ATTACHMENT A"

City Light Review Panel Meeting
Meeting Minutes

Date of Meeting: October 19, 2011

MEETING ATTENDANCE					
Panel Members:					
Name		Name		Name	
David Allen	✓	Matt Lyons	✓	Debbie Tarry	✓
Sylvester Cann IV	x	Stan Price	✓	Eugene Wasserman	✓
Tom Lienesch	✓	Julie Ryan	✓	Sue Selman	✓
Staff and Others:					
Phil Leiber	✓	Tony Kilduff	✓	DaVonna Johnson	✓
Maura Brueger	x	Calvin Chow	✓	Mike Haynes	✓
Kim Kinney	✓	Michael Jerrett	✓	Paula Laschober	✓
Suzanne Hartman	✓	Phil West	✓	Michael Clark	✓
Jorge Carrasco	✓	Steve Kern	x	Tuan Tran	✓
Karen Reed	✓	Jim Baggs	✓	Charles Broches	✓

Call To Order

The meeting was called to order at 2:00 p.m.

Welcome & Introductions

Karen Reed welcomed everyone to the meeting and began with a review and approval of the agenda. The agenda was approved.

Approval of Minutes

Karen asked the meeting participants to review the draft meeting minutes of September 23, 2011. The minutes were approved as submitted.

Presentations / Information

Karen advised that our next two panel meeting dates are scheduled for November 4th at 1:00 p.m. and December 2nd at 11:00 a.m.

Paula Laschober gave a presentation on the policies & practices for City Light with respect to capital investment cost allocation (Attachment C). This presentation was requested by the Panel in connection with the discussion of the proposed North Downtown (NODO) Substation and specifically, questions as to how the costs of major capital projects are allocated to customers. Paula provided background information on City Light's policies and practices as well as examples of how other utilities deal with the cost of substations.

Phil West introduced Michael Clark, Sr. Capital Projects Coordinator for City Light, who gave a presentation on the proposed NODO substation. Michael outlined the objective of the proposed substation which is to serve the new and existing customer loads in the North and central areas of Seattle. He explained the history of the project and drivers (load density and physical density) behind the proposal. He explained that City Light has looked at various options to provide additional reliability and flexibility to the system as a result of growth in the NODO area. Tuan Tran, City Light's Energy Delivery Engineering Director, continued the presentation to explain about City Light's peak load today and the anticipated load growth. He noted that the peak demand was highest in 1990 when it was roughly 2100 MW. The utility has not had to construct a new substation for nearly 3 decades. Tuan continued his presentation, stating that after reviewing the different options, the resulting recommendation of City Light was to build the NODO substation and to integrate the system to Denny Triangle & First Hill substations and transmission facilities to improve reliability, increase flexibility and expansion capability.

Jorge Carrasco summarized that in talking about NODO, we are talking about the not just the substation, but also transmission distribution improvements. He noted that as you build more transformer capacity, you also want to build more transmission lines to enhance redundancy and reliability. All of the rate base would pay for the substation, because there are other interconnections tied to it, and it enhances reliability of more than just the NODO area.

Phil West added that the NODO project doesn't address all the power quality issues. The project includes a new high reliability underground "spot network," but all customers in the NODO area won't necessarily be on that network. Customers who want to be on the network will participate in the cost of the network, at an estimated 20% cost increase over current power rate. Some large customers have signed letters of intent to receive power via the new spot network. Phil also clarified that power quality will depend on the equipment that the customer puts on site to link their operations to the spot network.

Michael reviewed the NODO project preliminary timeline, which shows the NODO project coming online in 2017, assuming necessary funding is approved by Council. Property acquisition has been completed and funding has been allocated through 2011 for the site environmental clean-up. Remaining project funding is in the range of $150 million.

Next, Phil Leiber provided an update on the financial baseline. Since the baseline was presented to the Review Panel in February, a number of things have happened to impact the baseline financial projection results. Phil reviewed the factors that provided upward rate pressure, most of the changes are from forces external to City Light, such as lower interest earning on cash, changes in pension contribution requirements, higher inflation in 2012, affecting the labor components of budget. Additionally, the utility increased the capital budget in out years to provide for a sustainable level of spending on the generation facilities.

Phil explained that to combat upward pressures, the E-Team took another look at purchased power assumptions. To reduce costs, they are assuming purchase of renewable energy credits

(RECs), rather than the procurement of additional actual resources, to meet I-937 requirements. They also adjusted downward by 2aMw the average conservation purchases required annually under I-937, from 16 to 14 aMw.

Phil noted that in the original baseline, about 40% of the rate increase expected was due to debt service; 40% was due to the cost of power purchases; and 20% was due to costs associated with operations, maintenance and inflation. Under the revised baseline, the overall annual rate increase remains 4.1%/year on average, but now 51% of this increase is attributable to debt service; only 17% is attributable to power purchases; and 32% is attributable to operations & maintenance costs (including taxes and rate discounts).

Jorge noted that the E-Team is concerned about rate pressure and that there are a number of factors that City Light does not control, but has to make assumptions about in developing the rate projection, including load growth, energy prices and assumptions about inflation. With less conservative assumptions about those factors, the baseline rate increase could drop to as low as 1.5% per year, however, we do not believe that is a realistic outlook at this time.

Phil Leiber then gave a presentation on Net Wholesale Revenue (NWR). He said that the question asked is how much wholesale revenue should we assume in building the budget? Wholesale revenue remains a volatile source of revenue that is subject to fluctuations from weather and economic variables impacting water levels and the price of energy. The Rate Stabilization Account (RSA) was established to help mitigate wholesale revenue uncertainty and it allows us to depend on a specified level of NWR each year. The historical average of NWR is not necessarily an accurate predictor of what next year's NWR will be because a single year's results are based on water conditions and energy prices, and the historical average does not take into account contracted resource changes that periodically take place, and particularly with the change in the BPA contract that took place on October 1, 2011. Additionally, customer demand load is gradually increasing, therefore the utility has less power to sell. These factors are partially offset by our assumed gradual increase in energy prices.

Phil explained that the Utility notes a significant gap in 2012 and future years between the NWR assumed using the average from 2002 to now (as specified by Ordinance) versus the Utility's current outlook for those years. As a result, it is more likely than not that surcharges will be imposed on customers each year if we continue with the current assumptions.

Phil showed some alternative approaches to determine how much NWR to assume when setting rates. He explained the rate impacts for each of the alternatives. He noted that rate volatility during the year and between years is a factor we would like to mitigate for customers.

Jorge stated that our intent is to get a sense of the Review Panel's thoughts on the offered approaches and the issue in general. The E-Team will take the input under consideration before making a recommendation to the Panel. Jorge noted his goal is for the utility to get to a level of sustainable reliance on net wholesale power revenue without relying on a surcharge.

The meeting participants discussed the options presented and offered additional ideas. There was general consensus that the assumptions should be changed at least to reflect the reduced amount of power that will be available for sale, on average. The E-Team will consider the input and bring additional material with the aim of providing a recommendation to the Panel at the next meeting on November 4. **Note**: Attachment I to the minutes summarizes the Panel's discussion on NWR in greater detail.

Issues/Action Items

Phil Leiber said that City Light intends to provide the updated financial baseline document in November.

Eugene Wasserman asked to get a quick briefing on the load forecast at a future time.

Adjournment

There being no further business, the meeting was adjourned at 5:00 p.m.

Attachment 1
NOTES on NET WHOLESALE REVENUE DISCUSSION
From 10/19 Review Panel Meeting:

Stan's Option:

Actual NWR $_{y1}$ → set this amount aside and use it as NWR $_{y2}$ assumption to build budget.

Implement/fund this by using monies in the RSA.

Rates from year to year could be very volatile –but there would be predictability/transparency from one year to the next as to what those rates would be (no mid-year surcharge surprises)

The trade-off is between volatility/rate spikes *versus* predictability/transparency year to year.

Other ideas offered in the discussion:

✓ Move to very conservative NWR assumptions
  - *Implications:* no surcharges, but higher rates

✓ Adjust the size of the NWR assumption to reflect changes in reality around the amount of power available to sell, based on:
  --Reduction in amount of power available to sell as a result of BPA contract change
  --Increasing demand load over time
  - *Implications:* NWR assumption will decrease
  - *There was general support from the Panel for this idea.*

✓ Lower the trigger for replenishing RSA to somewhere below $90M
  - *Implications:* can absorb more volatility without triggering surcharge, but risk larger surcharges.

✓ Use RSA balance to fund whatever solution is proposed
  - *Implications:* Increases risk of larger surcharges, rate volatility.
  - *There was general support from the Panel for this idea (e.g., funding a transition to the new policy from the RSA over time)*

✓ Use RSA to fund transition to situation where it is no longer relevant to meeting basic revenue requirements, and any amounts are used to fund capital reserves or other reserves.

✓ Deploy different approaches for different customer classes. Industrial customers may need more certainty and stability (in exchange for paying somewhat higher rates) whereas residential customers may be more open to transparency of a surcharge in bad water years (for example)

✓ Transition RSA balance to be used to fund rebates.

- The proposal recommended should be stated in terms of the principles/values it supports: there are 3 main principles, sometimes but not always competing.

TRANSPARENCY of rates – (more volatile rates ok if people can see why)

STABILITY of rates (no rate spikes) Stable, gradually rising/predictable rates over time.
--Volatility is disruptive
--Steady growth path has a value worth paying for

CERTAINTY
--No mid-year surprise surcharges – these happen off budget cycle and are very disruptive
--Consider market issues beyond local situation for business operating in national or statewide markets.
--Different solutions for difference customer classes

- *Stan's option supports transparency and certainty year to year over stability of rates.*
- *More panelists seemed to support rate stability as the most important value as compared to transparency. The co-chairs were leaning more to transparency with greater tolerance for rate volatility.*
- *Everyone seemed to agree that off-budget mid-year surcharges are not desirable.*

✓ There are two parts to the challenge:
  (1) updating assumptions –you can do that now (adjusting the target for changes in the BPA contract and increasing load); and
  (2) how you fund it/ what is the transition path. The latter may take more time.
- *Consensus from Panel, as noted above, was to at a minimum go ahead and update the assumptions used in the RSA and Net Wholesale Revenue to reflect reduced BPA volumes.*