

Seattle City Light Advisory Committee Minutes

July 28, 2009

Seattle City Hall, Boards and Commissions Room

Attending: Advisory Committee Members: Robin Calhoun, Tim Hogan, Eugene Wasserman, Don Wise (Chair)

City Light Staff: Superintendent Carrasco, Sung Yang, Phil Leiber

Council Staff: Michael Jerrett, Tony Kilduff, Dan Eder

Executive Staff: Karl Stickel, Julie Tobin

Superintendent's Update

The Superintendent discussed the completion of the snow melt and that the utility has moved into full summer operating levels at the Boundary and Skagit facilities. Boundary is running at 89% of normal and Skagit is running at 82%.

There has been little to no change in the net wholesale revenue forecast. Gas prices have stayed relatively low, at around \$3.70.

Climate Change Bill. The Bill is anticipated after the recess around Labor Day and needs to be accomplished by September 28. Utility staff has had discussions with both WA Senators to clarify the effect of the Bill. The allowances of 50 percent on emissions and load were removed on the floor and this limits City Light to very direct costs associated with title and Bill. Fortunately, the Senate is interested in starting discussion on legislation, which is nearer to original version.

Monthly Reports

Risk Oversight Status – Total Credit Exposure by Implied Ratings Class.

Don Wise commented the counterparty credit exposure could be of concern. Phil Lieber will come back to the Advisory Committee with a report of the specifics on constraints the utility faces. Tony Kilduff commented the Risk Management policies are explicit that the utility does not have discretion in selling when runoff occurs. The utility does not have the choice of spilling or selling to credit worthy entities. The five percent tail does not take into consideration counterparty credit risk. Don agreed that this makes sense quantitatively, but not qualitatively as if counterparty credit risk is not a consideration, then the utility is potentially understating the volatility of net wholesale revenue. There might be a need to find some way to qualitatively address and mitigate the issue. In today's economic climate, counterparty credit ratings of BBB and lower should be of concern. The Superintendent will address.

Performance Measures - Hiring statistics Cumulative YTD. The vacancy rate of 7.9 percent indicates that the utility is losing staff faster than it's hiring and there are no statistics measuring attrition.

Superintendent Carrasco noted the utility is delaying filling positions to meet a 9.45 percent vacancy rate target in order to realize savings and meet budget constraints. Don Wise advised that the utility record some indication of attrition so that in the future the record shows this was not a normal year.

Streetlight repairs. Following a question on what the prognosis is for the remainder of the year Superintendent Carrasco responded that the utility now has Council authorization to fund Phase 2 of the streetlight relamping program, which encompasses the central and downtown areas, and expects to move quickly to achieve a ten day turnaround cycle by year end.

Financial Update Report. Tim Hogan commented that the report identifies \$21 m in O&M budget reductions and the chart on page 5 shows projected expenses for selected accounts and he would have expected revised forecast bars to show an adjustment that would get smaller amounts than shown. Superintendent Carrasco responded that the targeted \$21 m savings on the O & M side are being tracked but the utility is falling short on a few of components. In addition to vacancy rates as discussed there are some unexpected offsetting expenses such as the rise of FERC fees. The utility continues to hold to the \$21m target and the utility is working to find new savings opportunities.

Superintendent Carrasco will send out a missing page with notes on the metric graphs.

Rates Review Process – Karl Stickel and Tony Kilduff

The Executive, Superintendent and Council staff are working on a rates process and proposed budget, while the selection of Rates Advisory Committee (RAC) members has started. Sung Yang and Tony Kilduff met to discuss potential Council appointments. The Mayor already has a list of potential appointees. The most recent schedule under discussion is to present a RAC package to the Energy & Technology Committee on August 19 with adoption by Full Council on August 24. The RAC will make a recommendation in November to the Mayor and City Council. The Mayor will present his proposal based on the RAC recommendations to Council in December. Council will deliberate through the first quarter and finalize a rates package for action in March or April. The City Light budget would then be amended in March or April subject to Council actions and revenue requirements. The mechanics and options are fluid and still under discussion. The Superintendent presented one option being considered where the City Light budget submitted by the Mayor in September would be a “place-holder” budget that would be modified in May/June 2010 and which does not assume an increase in rates during the first four months of 2010.

The RAC recommendation is considered advisory and non binding. Committee members asked what the value added was for a RAC to make a recommendation in late 2009 that would be non binding and not acted upon by Council until after the first quarter of 2010. It was suggested that if a new Energy & Technology Chair is in place in 2010 then this process may have problems. Eugene Wasserman asked Michael Jerrett whether Councilmember Harrell is planning to keep the chair position, to which Michael said the decision has not been made yet.

Robin Calhoun asked if would be possible to have the RAC Chair attend an Advisory Committee meeting. Tony Kilduff responded that it would be up to the RAC to decide their participation at the City Light Advisory Committee meetings. Tim Hogan referred back to the last Advisory Committee meeting when Committee members were asked to participate in two elements under consideration – the rates process and the Power Revenue Adjustment Mechanism (PRAM). Is the PRAM still actively being considered and will the RAC be asked to consider both elements? The response was the issue is still under discussion. Don Wise asked why it made sense for the RAC to consider financial policy. Tony Kilduff said that the RAC will need to understand financial policy and what it takes to run the utility in order to opine on rates. Eugene Wasserman commented that as the body asked to provide technical expertise, it is more appropriate for the Advisory Committee to review financial policy than the RAC to do so.

Superintendent Carrasco commented the utility will need to work with the RAC to define a work program and staff will begin the process of working with the RAC to define revenue requirements on different sets of assumptions.

Eugene Wasserman noted that if the RAC is not run properly, with role clarity, a clear work plan and a set of goals, the members will go off in their own direction and result in a waste of time. Committee members asked where the Advisory Committee fitted into the RAC work plan. Don Wise said there are two reasons to question the effectiveness of the RAC process: 1) Look at the history. 2) The Advisory Committee has spent the last six months working with the utility, Mayor and Council in the context of a strategic plan with no progress made. If asking the RAC to do similar work in less than three months, will the RAC be given access to information and cooperation that has not been available to the Advisory Committee?

Tony Kilduff sees the Advisory Committee looking at the strategic direction for the utility over the next ten years. Don Wise responded that hopefully Tony can appreciate from a short-term perspective, it is the Committee’s job to comment when they see something that does not make sense, they need to be candid.

Strategic Plan

Where does the Advisory Committee stand in terms of work plan in regards to the strategic plan? City Light provided Tony Kilduff with the requested financial information, and asked whether this now enabled moving forward with the workplan. Tony said the information was useful but he had been consumed with working on the rates process, had not had time to work on the larger strategic vision and his current workload will not enable a return to the Strategic Plan process. Further, Tony mentioned that Council Central staff may not have resources to look at the Strategic Plan until first or second quarter of 2010. Tony commented that the Advisory Committee could continue to work with City Light and Executive staff.

Don Wise responded that Council participation is critical from a tactical perspective. In order for Council to approve the Strategic Plan, they will depend on Central staff work. It is not a practical use of time and resources for the utility, Executive and Advisory Committee to go through the process twice, the Advisory Committee are volunteers with other commitments, as a practical matter why pursue a redundant process. Tim Hogan commented that if City Light and Council are not working together on the process then it is not a recipe for success and the process should be declared dead for 2009. The Advisory Committee's purpose is to help City Light be an effective organization. There is no purpose to keep the Advisory Committee sitting around.

Tim Hogan commented that if Council is not putting the Strategic Plan on the back burner, then it should commit to making a constructive process. If the Council is not willing or able to devote resources, then it is difficult to see how a meaningful Strategic Plan can be effective. Is there a willingness on the part of the Executive, City Light and Council to re-examine priorities on whether this is something that should be pursued. A firm commitment to stick to the process is missing.

Superintendent Carrasco responded by stating that the utility has been clear all along that the adoption of the Strategic Plan around budget and rates development is critical and the proposed plan has been in front of Council for some time. It is understood that additional vetting may be needed and is supportive, but this has to be a plan that everyone at a policy level is comfortable with. The Executive has reviewed the plan and provided feedback last year.

Work Plan and Report

The Advisory Committee needs to assess where the Advisory Committee is today against its work plan and start development of a report. To date this year, the primary work of the Advisory Committee has revolved around the strategic plan.

Committee members asked whether there has been any discussion around the future of the Advisory Committee in 2010, as the Committee is slated to end its tenure January 2010. Michael Jerrett mentioned that the reauthorizing of the Committee discussion has not started yet at Council. He will start this as soon as possible with CM Harrell. The Executive will discuss the issue.

Meeting Agenda - August 18

The meeting will focus solely on the Committee's Work Plan including the future of the Advisory Committee.

Julie Tobin will confirm that all six Committee members are available and, if not, will find another date.

Adjourn