

Seattle City Light Advisory Committee Minutes

August 18, 2009

Seattle City Hall, Boards and Commissions Room

(Meeting notes have not been formally approved by Advisory Committee Members)

Attending:

Advisory Committee Members: Bill Alves, Carol Arnold, Robin Calhoun, Tim Hogan, Eugene Wasserman, Don Wise (Chair)

City Light Staff: Sung Yang, Phil Leiber Council Staff: Michael Jerrett, Tony Kilduff, Dan Eder

Executive Staff: Karl Stickel, Julie Tobin

City Light Update - Sung Yang

- Weather hydro. Dry weather conditions have resulted in 92 percent of precipitation with. The August Skagit flows are in the lowest quartile of the historical flows.
- SmartGrid. On August 6 City Light submitted a \$104 m ARRA SmartGrid application / proposal to build an advanced metering infrastructure system for all SCL customers including automation of substations and distribution facilities. The stated goal of naming award recipients in October maybe optimistic and announcements will more likely be made in November or December.
- Rates Advisory Committee. The Mayor has submitted nominees for Energy & Technology Committee Review on August 19. The RAC comprises nine members, five nominated by the Mayor and four by Council. It is anticipated the RAC will be formed September 8.
- Employee Outreach. The Superintendent led a series of all employee meetings regarding the financial condition of utility and a potential rate development process. Employees were encouraged to submit ideas. Of the 43 ideas submitted, 16 were followed up on.

Monthly Reports – Phil Leiber

Bill Alves asked if the utility had stopped selling surplus power forward and had wondered if the utility was diverting from its usual policy. *Phil Leiber will get back to Committee members with more information.*

Phil Leiber reported that retail revenues continue to hold up well with wholesale revenues showing little change. Quantities forecast to be about four percent below 2008 levels. The utility continues to monitor expenses to achieve the \$21 m savings target in 2009. Unexpected costs of \$5 m in FERC fees and unforeseen environmental and claims costs are causing some unexpected pressure. The utility is developing alternatives to close the financial gap and is considering changes to the financial policies as well as the addition of a wholesale power revenue adjustment mechanism (PRAM) to adjust rates more frequently based on changes in conditions. If the utility is able to address volatility with a PRAM that may reduce the revenue requirement and debt service reduction. The Executive is developing a white paper. It is not clear whether that white paper will be reviewed by the City Light Advisory Committee or the Rates Advisory Committee. Council central staff is expecting to review the proposal in 2-3 weeks. Don Wise asked how the Executive/Council/utility saw the City Light Advisory Committee being involved in this process. Sung Yang said he would check with the Mayor and update Committee members at the September meeting. Sung also has to first meet with Council to see to which degree they want to review all the financial policies. The Executive, utility, and Council have committed to work together on financial policy changes and the PRAM in the months to come, but are very early in their discussions. Don Wise asked if there was any reason Advisory Committee members could not sit in on that

conversation as the Committee prefers to avoid commenting on a finalized product given the Advisory Committee 2009 work plan, requested and accepted by the Mayor and Council, implies that committee members have already been asked to participate in the process. Tony Kilduff and Sung Yang responded that the hesitancy is because conversations are in the very early stages and they did not want to waste Committee members' time with rough, technical discussion. Advisory Committee members responded that they want to be involved as participants not as spectators. The role of the Advisory Committee is to provide "technical expertise" and they could be better utilized participating in the technical discussions taking place rather than opining on a finished product.

Eugene Wasserman asked if the retail load has it stayed the same for the last three to four years. Phil Leiber will provide Eugene with data regarding multi-year trend.

The conservation graph is incorrect as the 10.3 target discussed at the meeting is not included in the graph. Phil Leiber will get back to the Advisory Committee with corrected information.

Tony Kilduff asked when in 2010 the utility anticipated a lean on cash pool and whether the utility had thought about using the contingency reserve. Phil Leiber said the first quarter and utility staff will start looking at the contingency reserve.

Committee members asked how the utility has progressed against its \$21 m cost reduction targets. Phil Leiber responded that O&M is falling short due to the aforementioned unexpected FERC fees and environmental and claims costs, the vacancy rate had not yet reached the target because turnover has been lower due to the recession, but that there is savings in other areas such as tree trimming, training and travel and conservation and that savings is being diverted to other areas which are falling short.

Sung Yang will follow up with Committee members on the cost sharing arrangement between City Light and Seattle Public Utilities on the Duwamish clean-up. Carol Arnold suggested the utility have a reserve for massive cleanups and Bill Alves suggested this type of unexpected expense might be another financial policy issue, perhaps gets folded into cash reserves and should be a factor in future rate considerations. Sung Yang will provide the Advisory Committee with more information. Tony Kilduff reported that the City self insures and that Eric Campbell (SCL's Risk Manager) has broadened scope of risk analysis for issues like this.

Don Wise commented that the Executive is delivering a budget to Council that assumes current rates, and given the current distress that the utility is facing, one would anticipate similar distress in 2010. That being the case, the budget implies a need for systemic changes to the way the utility operates, and has the utility evaluated what those are, and given the utility has no authority to assume revenues to make systemic changes, how will that be dealt with. Sung Yang responded that the utility is working on a specific solution and that this would be a two process budget for City Light. The budget submitted to Council will not assume a rate change and may reflect a set of serious reductions as compared to the endorsed 2010 budget. Once the Rates Advisory Committee makes their recommendations to the Mayor and Council in November, the Mayor may propose an amendment to the 2010 Adopted Budget, which would, in essence, constitute a second budget. If the Council decides that a rate change is not required the utility would implement Council-adopted categorical reductions mid-year 2010. Don Wise commented that would be too late and with no rate adjustment how could the utility fill a \$150 m gap in 2010. Phil Leiber said the utility is working on a proposed 2010 two part spending plan and for the first several months will operate at a sustaining level without significant systemic cuts. If there is no rate

increase around May of next year the utility will have to turn to the more substantial reductions. Don Wise comment that reductions would be more significant at that point in time and if changes were made today that would lessen the impact.

Don Wise commented that assuming a \$150 m gap between the 2010 endorsed budget and zero rate increase implies a rate adjustment is necessary so why can't the utility address some reductions now, instead of more substantial changes midway into 2010. Eugene Wasserman said that some Councilmembers do not feel the need for a rate increase is justified. Don encouraged the Council, Executive and utility to reconsider the process. Sung Yang said another reason having process is to have public process finish, which pushes out the planning further than the September timeframe.

Karl Stickel reported that the Executive does share concern about programmatic issues that need to be addressed and that budget issues to be further vetted as the Mayor wants significant, sustainable changes which may involve assumptions about the financial policies. The Advisory Committee have previously recommended that discussing changes to the financial policy, which by nature is long term, to address short term issues is dangerous and is a reason the Advisory committee want to participate in discussions.

City Light Advisory Committee Work Plan

The goal is to assess where the Committee is now and where it should go, make work plan assignments and a schedule.

Role of the Committee.

Eugene Wasserman is concerned that City Light is a mature utility and yet seems to be scattered in its actions. Tim Hogan does not see the Advisory Committee as having accomplished much given it is not used to help formulate but rather an as an audience to review finalized policy which diminishes value. Bill Alves agreed and thought the Advisory Committee ought to move forward and discuss the options for another body outside of Executive and how that could be structured i.e. start with a blank slate. The Advisory Committee has been unsuccessful in providing input and if it does not have a formal role in rates and budget it's difficult to influence the larger process as there is a lack of any authority to act on the findings of the committee. Carol Arnold noted that intercity communication has improved through Advisory Committee meetings but that nobody asked the Committee's advice. Bill Alves said the Committee should look at why there is no willingness to give a Committee authority and what is advantage of having rate budget decisions made, without more formal involvement by non-authority.

Robin Calhoun recommended a specific process to get input on the Advisory Committee's role from interested parties i.e. talk to various elements of government to get answers to a specific set of questions.

The annual report should comprise accomplishment, lessons learned and advice to give. The goal is to have a report outline by December 8. The Advisory Committee will talk to Mayor and Councilmember Harrell before the report is published. A more defined schedule will be discussed at the next meeting.

Work Plan Assignments:

- Role of Committee (including items 4 & 5) Lead - Carol Arnold

- Financial Policies Lead - Tim Hogan
- Public Involvement Lead - Robin Calhoun

The Committee of the Whole will work on all items.

Carol Arnold is out until the third week in September. Bill Alves is away Oct 13 – Nov 19

Don will follow up with Michael Jerrett and Karl Stickel on the Advisory Committee's involvement in financial policy discussions. Bill Alves and Carol Arnold are willing to go to meetings.

September Agenda

- Superintendent's Update
- Conservation Update – City Light Staff
- Risk Management Report. Eric Campbell. Enterprise Risk Management Strategy, identify issues on horizon. Work underway to assess each risk and mitigation plan.
- Advisory Committee Work Plan
 - Role of the Committee – Carol Arnold
 - Financial Policies – Tim Hogan
 - Public Involvement – Robin Calhoun
 - Define a specific schedule

Adjourn