



Strategic Partnership Initiative

The risks we don't know, or fail to measure, are the ones that can hurt our ratepayers.

September 9, 2008



City Light's Goals:

- Resolve long-standing “Gaps” in City Light’s capabilities and capacity.
- Decrease or eliminate operational and financial risks.
- Establish industry best practices including risk oversight.
- Support strategic financial decisions and risk management using an integrated energy business system.

City Light continues to improve, but more progress is needed. This requires establishing best practices in commodity transactions and risk management.



Status Quo?

- Current financial, operational, and commodity risks are unacceptable.
 - The existing decade-old business system does not provide necessary functionality.
 - Current operations are overly dependent on disconnected systems.
 - Current resources are inadequate to support best practices.

The purpose of the partnership is not to increase earnings, but to mitigate and manage risk, including through better analytics.



Path to Best Practices

- Strategic Partnership
 - The continued existence of functional “Gaps” in 2007 (some since 1999) favor a Strategic Partnership.
 - The uncertainty and delay of a pure self-build scenario favor a Strategic Partnership.
 - Capacity and capability needs favor a Strategic Partnership.
- Self-Build requires substantial, immediate resources.
 - Significant funding of energy business systems.
 - 11 exempt pockets with adequate salary ranges.
 - On-going consultant support in any scenario.
- 2010 – evaluate City Light and APM performance to determine the preferred path for going forward, including the 2011-12 budget.

The Strategic Partnership is the most efficient and timely path to achieving best practices.



Financial Comparisons

	2009	2010	10 yr. PV of Spending
<p><u>Full Self-Build</u> 11 FTEs, energy business systems, and supporting consultant budget. The full Self-Build option may achieve benefits on a longer time frame (2-3 year delay) and poses the risk that benefits, including financial benefits, will not be achieved or endure.</p>	\$4.64	\$4.39	\$22
<p><u>Full Partnership</u> All partnership services plus delegation and execution of all commercial transactions. Pricing - Low = from Carmel, IN; High = from Seattle</p>	\$3.6-5.08	\$3.17-4.58	\$28.9-43.1
<p><u>Strategic Partnership</u> Use APM's energy business systems (Trading Control and Contract Monitoring Services) Support for Forward Power Marketing (as well as Real-Time and Day-Ahead) Support for Risk Oversight (Credit Services and Settlements) Additional analytics (Portfolio Modeling, Quantitative Analysis, Hedge Development, Origination).</p>	\$1.23	\$1.29	\$11.9

Strategic Partnership is the “sweet spot” of value for City Light. It provides timely support and allows City Light to retain strategic control of its system.



Process to Date

Spring-Summer 2007:

- Due diligence with two prospective service providers including in-depth discussions and review of confidential documents.
- Liaison with Mayoral and City Council Staff through weekly Strategy Team meetings.
- SCL Business Case developed to provide analytical support for decision on whether to pursue “self-build” path or to pursue strategic partnership.

Fall 2007 – Spring 2008:

- Superintendent directs use of a formal Request For Proposal to obtain best pricing from prospective partners.
- The RFP was managed by the City’s Department of Executive Services, Purchasing Administration (SCL-2288 issued November 12, 2007).
- Eight RFP responses received from Clarity Analytics, Bear Energy (Bear Stearns Corp.), KPMG, Sungard, Coral (Shell Energy), ACES Power Marketing (APM), The Energy Authority (TEA), and Pace Global.
- Four finalists interviewed - Bear Energy, Pace Global, TEA, and APM.

Rigorous, careful review of options lead City Light to select APM.



Why APM?

- APM is an experienced provider of risk management and commodity purchasing services.
- APM is owned by 16 public power cooperatives and has as customers, 9 municipalities and 9 additional cooperatives.
- APM has the ability to meet City Light's most critical needs immediately and can execute transactions for City Light, if necessary.
- APM is not a market participant, minimizing risks to City Light.
- APM has a service-oriented business model and corporate culture.
- City Light can “test drive” this relationship in a manner that does not create difficult to reverse dependencies, while evaluating APM's performance.

***The Preferred Partnership is a cost effective alternative
for City Light's rate payers.***

2008 RFP pricing for 2009 start equals a durable 5% discount.



Strategic Partnership Structure

- Utilization of APM's energy business systems.
- Support for Forward Power Marketing.
- Improved Risk Oversight.
- Analytical support (Portfolio Modeling, Hedge Development, and Renewable Resource Acquisition).
- Performance metrics will support future decision making.

The scope of the contract meets City Light's most immediate needs while supporting current City Light staff.



Contract Services and Costs

Initial 6-month Implementation (Third Quarter 2008 request)	\$360,000.00
Services:	
<u>Analytical and Qualitative Improvements</u> - APM would help us improve SCL's portfolio modeling (long-term and short-term modeling) and help us improve our analyses and justifications for proposed transactions including hedges and structured deals (example - recent SMUD agreement).	\$476,000.00
<u>Marketing Strategy Development</u> - APM would help us in evaluating renewable resource acquisition plans that implement our IRP through improved market intelligence gathering and better valuations of Renewable Energy Credits and ancillary services.	\$228,000.00
<u>Transaction Controls</u> - APM will capture and report City Light's purchases and sales via their rigorous procedures and energy business systems.	\$215,000.00
<u>On-Site APM Staff (1)</u> - To manage and improve the quality of deal capture and to help coordinate services.	\$144,000.00
<u>Credit Services</u> - To augment and complement Finance's credit analytical capabilities.	\$90,000.00
<u>Settlements</u> -To improve the quality of back office data and reports, and augment capabilities if needed.	\$70,000.00
<u>Contract Monitoring</u> – APM would familiarize themselves with all details of our power contracts, and load those details into their energy business system for better contract compliance and deal analytics.	\$3,600.00
1st year (2009) estimated total	\$1,226,600.00



Contract Issues

- Indemnification - Both City Light and APM typically require counter-parties to indemnify them.

City Light believes the benefits of the contract outweigh the risks associated with indemnifying APM for the following reasons:

- APM requires all its members and clients to indemnify APM as a condition of service.
 - APM’s indemnity policy shields Seattle from risks created by other members or customers. The policy prevents any harm from one customer “infecting” all the others through APM.
 - Even with the risk of indemnifying APM, City Light’s risk profile, as a whole, **decreases** compared to the status quo.
- Timing – critical and dependent upon legislative approval.

The decreased risk associated with APM’s services outweighs the potential risk of indemnifying APM.



Next Steps

- **Proposed legislative timeline:**
 - August - ETC review and approval.
 - August-September - Full City Council review and approval.
 - September - Superintendent executes contract.
 - October 1st - City Light begins six month implementation.
 - March 2nd, 2009 – Commence commercial operations with APM.
- **Proposed Ordinance:**
 - Includes 2008 supplemental request for implementation costs - \$360,000.
 - Authorizes 5 year contract with two, two-year renewals.
- **On-going contract funding BIP in 2009-10 budget proposal.**

The Strategic Partnership will mitigate existing risks, improve risk oversight, and stabilize operations.



Questions?