RATES ADVISORY COMMITTEE

Tuesday, October 13, 2009

2 – 4:30 p.m., SMT 3205

Committee Members Attending:
Eric Hausman
Rod Kauffman
Ellen Monrad
Joe Simpson
David Allen
Andrea Caupain
Dave Gering
Debby Tarry

Also Attending:
Rob Shelley, Seattle NW Securities
Don Wise, SCL Advisory Committee
Karl Stickel, Mayor's staff
Michael Jerrett, CM Harrell staff
Tony Kilduff, Council staff
Corey Knutsen, SCL
Sung Yang, SCL
Phil Leiber, SCL
Paula Lascholber, SCL
Mike Eagan, SCL

The meeting began with a review of the Council timeline. There will be a briefing for central staff on Friday, 10/16th, and three special meetings of the Energy & Technology Committee (ETC) on 10/21, 11/4 and 11/5. One ETC meeting will focus on the RAC's recommendations. The Chair stated his desire that there be an agreed and voted upon set of recommendations, although comments from those dissenting would be appended in a minority report. Individual testimony will be accepted for 15 to 20 minutes at the beginning of each of the ETC meetings, an opportunity for RAC members to testify as representatives of their own constituencies.

The City Council is holding a public meeting on 10/14 at the African-American Museum and another in the future. Mr. Jerrett will provide a schedule to Corey for distribution. The full Council is expected to vote on budget and rates on 11/23rd.

Sung Yang reported there are two meetings with City Light's Key Customers (SCL's 150 largest customers) on 10/14 and 10/15 at the downtown library.

Committee Chair Rod Kauffman referred committee members to a handed-out compilation of questions and responses from the 10/6th meeting, adding he welcomed additional questions from the committee and his own. He said he needs to understand the history of City Light's operating budget and tracking of expenses from 1999 to the present, plus revenue and employment, in one document.

Mr. Kauffman asked about using 2007 as a base budget relative to the projected revenue gap and what it would look like if City Light were to get smaller, pared back to a previous level of operations. And he asked whether the 2000 rates, adjusted for inflation, are lower than current rates.

Mr. Gering requested demographic information on job categories, including where employees were located (e.g., Skagit, Boundary, etc.) by job categories. He also asked about anticipated attrition and whether there were opportunities to offer early retirement. Mr. Yang responded there are some constraints to such an offer, while Mr. Simpson added that many workers were staying on the job because of recent declines in their retirement accounts, etc.

Mr. Gering also reminded the committee that the City Council has not adopted a long range Strategic Plan for City Light, which might provide context for both discussions and recommendations.

Mr. Kauffman asked about the assumptions behind the projected $120M gap next year, which Mr. Leiber said was determined by a third-party review of projections of load growth and surplus wholesale prices. Mr. Leiber referred to question #5 in the handout and the background it provided.

Mr. Shelley of Seattle NW Securities was introduced and described his role as to guide the committee to likely outcomes of decisions that could be made. While noting City Light has traveled a long road back since 2001, he said the primary changes were the volatility and vulnerability of entering the surplus wholesale market. City Light has gone from a net purchaser or surplus power to a net seller.

Mr. Shelley presented a power point describing the utility's bond ratings history, the tax-exempt credit spreads based on those ratings and a summary of potential refunding options. He added that City Light's ratings are totally separate from the city's, though City Light can "draft" somewhat on the city's outstanding rating and benefits overall from the city's liquidity.

There was discussion about the characteristics considered in the ratings, including the exposure of net wholesale revenue and that volatility as well as the reactability of the rates process to meet debt service. It was noted that the suggested Power Rate Adjustment Mechanism (PRAM) could provide a way to mitigate that volatility.

Mr. Don Wise of the SCL Advisory Committee was introduced. He was asked to address that committee's view of current financial policies, strategic plan, budget and rate setting processes. He said there were three elements to the long term strategic view: identifying that point on the horizon we wish to reach, City Light's long term objectives; the budget and rate setting processes to get to that point; and the mechanisms to ensure the utility stays on track and can meet unexpected challenges along the way.

Clarifying that he was speaking personally and not as a formal representative of the Advisory Committee, Mr. Wise said the third item – mechanisms to stay on track – were working pretty well, but the first two elements were "badly broken." He said the draft Strategic Plan was a good articulation of the challenges the utility faces, but there seems to be no alignment of the central issues by the Executive, Council, City Light and the rate payers. For example, are we striving for the lowest cost of electricity or the optimum cost?

Regarding budget and rate setting processes, he said these currently are totally separate. Rates should be set with a view to the long term and changes should be predictable. In looking forward, Mr. Wise suggested the committee look at where SCL needs to go, not the history of where it's been or the old model of "run to failure." With a view to the future, he mentioned being prepared for things not previously anticipated; e.g., the Alaska Way Viaduct replacement, pending retirements, new FERC requirements, wholesale revenues, infrastructure needs, etc.

To recap, the financial policies the committee must discuss are (1) debt service requirements, (2) debt to equity ration and (3) the PRAM.

Mr. Yang summarized the discussion by saying we must seek to balance the right level or service with the cost of providing it. Mr. Jerrett added the need to understand the expectations of customer service. Mr. Kilduff graphically illustrated the reality that City Light's power portfolio is primarily hydro and that won't change soon; thus, the questions revolve around dealing with fluctuating revenues.

Members received a proposed budget handout described as "Table 2 Seattle City Light" and "Table 3: Significant Changes to Capital Improvement Program."

There was discussion about the format for the RAC's recommendations. It was suggested that an outline or base document be shared asap with the committee.

The next RAC meeting is scheduled for Tuesday, 10/20th. Corey will work with the chair on the agenda and it will include a discussion of further cuts and expense deferrals, what programs might go, what additional positions, etc.