

RATES ADVISORY COMMITTEE

Tuesday, October 20 2009

2 – 4:30 p.m., SMT 3205

Committee Members Attending:

Eric Hausman
Rod Kauffman
Ellen Monrad
Joe Simpson
Andrea Caupain
Stan Price
Dave Gering
Debbie Tarry

Also Attending:

Dan Eder, Leg. staff
Paula Laschober, SCL
Michael Jerrett, CM Harrell staff
Tony Kilduff, Council staff
Corey Knutsen, SCL
Sung Yang, SCL
Phil Leiber, SCL
Roberto Bonaccorso, SCL
Karl Stickel, DOF
Kristy Grainger, SCL

Committee Chair Rod Kauffman said the meeting would start with reviews of the letter submitted by the City Light Advisory Committee to Council member Bruce Harrell, and also of the list of member questions and answers from SCL staff.

Mr. Kauffman said the last portion of the meeting the RAC would meet by themselves, with the exception of a few minutes with Council Central Staff.

The committee discussed some of the concerns of the Advisory Committee, including reservations about the automatic rate adjustment mechanism (PRAM) and the impact on access to credit from relaxing or suspending financial policies.

Answering a question from the committee, Mr. Leiber estimated that to avoid a rate increase, SCL would need to cut \$50 to \$60 million out of the \$200 million Operating and Maintenance budget, with impacts on service and staffing levels.

The committee continued the discussion on the PRAM, learning that a sunset clause would not change its intent. Mr. Simpson asked if the committee would

need to be reconvened next year to institute the PRAM – staff said that it would become effective Jan. 1, under the current proposal.

A committee question on whether the proposed financial changes would affect SCL's credit rating led to a discussion about how credit rating agencies work. Mr. Leiber said we would probably be re-evaluated when we issue new bonds next year.

The committee discussed the drawbacks and benefits of using surplus power sales to raise revenue, including its benefit to rate payers and the inherent instability that makes credit rating agencies uncomfortable. Mr. Hausman asked if there were other options beside the PRAM to provide stability.

Mr. Kilduff offered the option to increase rates by 15 percent now to guarantee a 1.8 debt ratio, and avoid the PRAM altogether. This would still place SCL rates lower than at its neighboring utilities.

The committee discussed the merits and drawbacks of this idea, considering whether rates could still go up that high with a PRAM. Ms Debbie Terry said the committee still would need to address the weakness of depending on power sales for revenue.

Mr. Leiber said there are alternatives to the PRAM, such as cash reserves, but in our situation, the PRAM is superior. Asked by Mr. Kauffman how long SCL could function into 2010 based on cash on hand, Mr. Leiber said the utility would run out of money by February, 2010. He said we could wait on a decision on the PRAM, but not too long.

Ms. Monrad asked for a list of capital projects scheduled for next year. Mr. Leiber referred her to the background materials for projects, which total about \$160 million, including fixes to SCL's distribution system, work on a new asset management system, and others.

The committee discussed the timeline for adopting a PRAM, the effects that delaying it could have on credit ratings, and the need to educate business customers about the process.

The committee and staff explored a question about how much the utility could cut from its budget to address the \$61 million increase in costs. Mr. Kauffman said the cuts already proposed for next year at the edge of what's acceptable, and that going further would have undesirable impacts. The committee also looked at the effect of rates on the capital budget, and how those costs are spread out over several years.

Mr. Kauffman then directed the discussion toward what the committee's final report should look like. Mr. Kauffman proposed that the report address the consensus, but also include a section on minority opinions. Mr. Gering proposed a section for findings.

Mr. Gering then asked the staff why he still hasn't received an answer to his questions about why the utility does not have a strategic plan. City Light and Central Council staff then explained the process for drafting a strategic plan. They said that City Light produced the plan. Council staff expressed concerns about that plan, which they felt were not addressed by the utility. The City Council never took it up after that.

Mr. Gering thanked staff for being candid, but stressed that the committee needs timely answers to its questions to be able to function.

Mr. Kauffman then asked the committee to meet by themselves taking part of that time to meet with Mr. Kilduff and others of the Central Council staff.