



## Legislative Department Seattle City Council

March 4, 2004

Donald M. Wise  
Managing Director, Asset Services  
Metzler Realty Advisors, Inc.  
700 Fifth Avenue, Suite 6175  
Seattle, WA 98104

Dear Mr. Wise:

The members of the City Council wish to thank you for your thoughtful submission Seattle City Light: From Recovery to Stability ("the report"). As members of the Energy and Environmental Policy committee noted during the Advisory Board's oral presentation on February 11<sup>th</sup>, the Council greatly appreciates your efforts in 2003 and recognizes the hard work you put into this document.

The Council wishes the Advisory Board to know that the Council does support the direction charted for City Light in the report. As the Council receives proposals from the Executive and City Light seeking to implement specific recommendations, we will request additional input from the Advisory Board members and, as specified in the legislation creating the Board, will notify you about Council decisions on these matters.

As further exposition, the Council provides the comments below. These remarks do not attempt to address each of your recommendations individually but indicate areas where the Council expects to thoroughly evaluate your recommendations over the coming year.

### **Financial Policies, Risk Management, Integrated Resource Planning**

The seriousness with which the Council regards your recommendations in these three areas is reflected in our workplan for the coming year. As you can see from the attached pages, Financial Policies and Debt Management, Risk Management, and Integrated Resource Planning are all explicitly listed and have staff resources allocated to ensure that these three areas receive due consideration and analysis. The Council expects to consider Risk Management issues as described in your report and in Council Resolution 30632 throughout the coming year.

You should also be aware that in Resolution 30611, the Council required City Light to provide a written analysis of alternatives to the bond reserves and whether these would be more cost-effective. City Light must provide this at least three months before proposing any additional long-term borrowing. The analysis must also provide additional information on the use of fixed versus variable rate debt and the appropriate balance. Council is in the process of defining the timetable to consider financial policies and will notify the Advisory board when the schedule has been finalized.

The Council certainly is open to revising other financial policies, including clarifying interpretations to make them more transparent- e.g. what the requirement to ensure that net revenue available to fund capital requirements in each calendar year will be positive with a probability of at least 95%.

While IRP is not currently legislatively mandated, the Council has indicated its intent that City Light use processes comparable to most other utilities in the Northwest. Resolutions 30092, 30494, and 30276 exemplify the Council's interest in ensuring that City Light conduct appropriate studies to enable comparisons of alternatives. The Council expects to have the opportunity to review City Light's work on the mini-IRP later this year in the context of the Klamath Falls decision.

In addition, the Council defined a list of goals and expectations for Jorge Carrasco, the new superintendent of City Light, prior to confirming him and asked that the Mayor include these when developing the performance contract with Mr. Carrasco. Examples of these include strengthening integrated resource planning capabilities at City Light, developing strategic plans, reducing operating costs, strengthening risk management by modifying the organizational structure, evaluating the current organizational structure and utility talent, and creating a culture within City Light that promotes accountability and transparency.

Mayor Nickels graciously agreed that these, along with the recommendations in your document, would be included in the Executive Department's contract with the Superintendent. We believe that the Council's goals and expectations complement and support the recommendations in Seattle City Light: From Recovery to Stability and Security.

#### **High Performance Organization**

The entire City Council, in its letter to the Mayor dated February 2, 2004, committed to working with Mayor Nickels, Mr. Carrasco, and the Advisory Board to develop, adopt, and implement policies to improve City Light. We reiterate that pledge in this response and echo the words of Mayor Nickels in the letter he sent back to the Council that we look forward to working with all parties to make Seattle City Light the finest public electric utility in the nation.

Many of the Advisory Board recommendations relate directly to City Light and the need for organizational change. The Superintendent most properly deals with these issues. Mr. Carrasco has indicated that he intends to involve the Advisory Board and to utilize your advice. This is as it should be under the city's governance structure. When confirming Mr. Carrasco, the Council clearly stated their support for his efforts to change the culture and methods of operation at City Light.

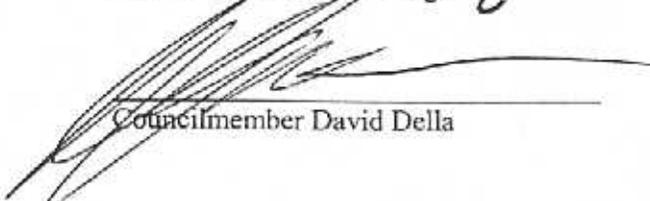
The Council also recognizes the importance of the Advisory Board's recommendations relating to the budget and oversight. Council staff had already initiated work in 2003 to enhance Council oversight and transition to a "new way of doing things." We expect to continue this work in 2004 and 2005 as the Council reviews Revenue Requirements for City Light, establishes Standard Filing Requirements for rate cases, reviews the rate objectives and policies adopted in 1989 to determine which, if any of these, are still appropriate, analyzes City Light's cost of service and orders change should it be needed, and designs new rates and policies to be followed.

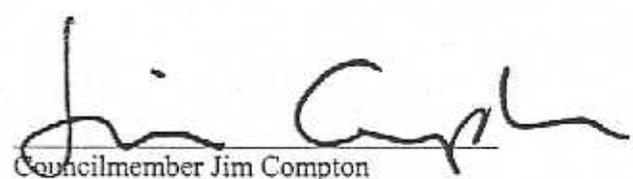
However, progress in this area will depend heavily on City Light. The utility's degree of cooperation with Council's information requirements along with the will to change its methods of operation and current methodology will determine how successful this effort can be. The Advisory Board's input and support will definitely be needed to effect a transition that meets the needs of all parties.

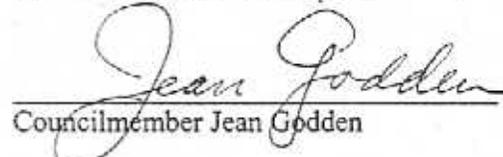
Once again, thank all of you for your service on the Advisory Board in 2003. Your work far exceeded expectations and you are to be commended for your dedication and effort, as well as on the quality of your work product. The members of the City Council look forward to working with you throughout the next two years on your recommendations and other issues that arise.

Sincerely,

  
Council President Jan Drago

  
Councilmember David Della

  
Councilmember Jim Compton

  
Councilmember Jean Godden