RATES ADVISORY COMMITTEE

Tuesday, October 6 2009
2 – 4 p.m., SMT 3205

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

Also Attending:
Dan Eder, Leg. staff
Cameron Keyes, DOF staff
Michael Jerrett, CM Harrell staff
Tony Kilduff, Council staff
Corey Knutsen, SCL
Sung Yang, SCL
Phil Leiber, SCL
Roberto Bonaccorso, SCL

The session began with the sharing of Council Member Bruce Harrell's press release of Oct. 2, which raised objections to the proposed budget and City Light rate increase, and demanded more cuts from the utility.

Committee Chair Mr. Rod Kauffman asked Mr. Sung Yang to respond. Mr. Yang said City Light will propose modifications to the cost of purchased power that will make the budget 1 percent lower that the endorsed budget, if the council adopts them.

Mr. Kaufman welcomed committee members Stan Price and Dave Allen, who were at their first meeting.

Mr. Kaufman said the committee's charge is to make recommendations by November, and that the RAC may be asked to reconvene to consider rates for 2011-12. The Mayor's proposal of 8.8 percent rate increase has implications beyond the first budget year
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Mr. Kaufman said the Mayor's proposed budget would change financial policies, lowering the debt coverage ratio from 2.0 to 1.6., which has implications for future bond

sales. He said the Power Rate Adjustment Mechanism (PRAM) that could raise rates up to 1 cent per kilowatt hour is one of the big issues before the committee.

Mr. Kaufman said he attended the meeting of City Light's Advisory Committee, which has been trying to describe a plan that has never been adopted by Council. He said the current financial policies, strategic plan, budget and rate setting are not linked. He has invited the chair of that committee to address the RAC, so that it can learn more about their long-term strategic goals.

Mr. Kaufman said he still needs to better understand the impacts on debt from changing the debt coverage ratio, and also the basis for forecasting $120 million in power resale in the proposed budget. He would like more discussion on the triggers behind a PRAM, and the maximum rate increases possible, especially in a bad economy. He mentioned that the Advisory Committee favors cash reserves of $100 million, instead of a PRAM.

Mr. Kaufman would like a better understanding of SCL capital needs, and why SCL has not cut deeper.

Mr. Stan Price asked if we used benchmarks from other utilities and cities regarding PRAM and reserves. Mr. Phil Leiber said we had. Mr. Kaufman argued that City Light is unique, in that it depends on power sales.

Mr. Eric Hausman asked why City Light only cut 2 percent of personnel, when the UW cut 20 percent. Mr. Sung Yang said we could have that discussion, and referred to the package that included the Mayor's proposal, with cut positions. Mr. Kaufman clarified that City Light cut 4 percent, but only 2 percent were for filled positions, and that we need more details.

Mr. Hausman asked why City Light is increasing operating expenses by $61 million, and that the committee needs more details.

At this point, the committee welcomed SCL Power Supply and Environmental Affairs Officer Steve Kern. Mr. Kern gave a detailed explanation about the budget control levels, the jobs, staff, regulations, budget and reductions in his purview (see power point presentation for details). Mr. Kern emphasized the complexity of power production and sales, the importance of the Boundary project in SCL's power supply, the regulations from FERC and other agencies that restrict our choices, the importance of resource planning and environmental protection, and the costs and risks of deferred maintenance and capital projects.

During the presentation, Mr. Kern and staff were asked to clarify issues about an internal audits and a current state audit of City Light that is due in December.

One major area of discussion involved the utility's conservation plan. Mr. Kaufman asked what it cost the utility to be carbon neutral. Mr. Kern explained that conservation is the power supply of choice, since it will meet new demand without the costs of buying power or building new plants and delivery infrastructure.

Mr. Kern explained that we are required to conserve by I-937, and to acquire new sources. Our culture also requires us to be good stewards, such as our successful effort to remove PCBs in transformer oil, and our purchase of greenhouse offsets. Mr. Kaufman said we need to be aware of the effects of pending cap and trade bills.

Several members asked why is has been easier to get the Council to approve a conservation plan but not a strategic plan for the utility. Mr. Sung and Kilduff said the strategic plan deals with infrastructure, portfolio, systems and many complicated elements that need to work together.

Mr. Kaufman and Mr. Gering expressed concerns about load mitigation and current estimates about wholesale revenues. Mr. Leiber explained that these are our best estimates, based on forecasts for gas prices.

Mr. Kaufman asked for any possible lawsuits, community protests or other actions that could affect plans and projections.

Mr. Sung Yang explained that we have impact fee agreements with Whatcom and Pend Oreille counties. Whatcom has been successfully renegotiated for $750,000 a year; Pend Oreille, which currently receives $1.2 million, has not agreed to our proposal, and we are in arbitration.

Ms. Ellen Monrad asked at what point we can't conserve anymore. Mr. Kern said we review our costs for conservation measures every two years, and we are still very far from our limit of $70 per megawatt hour. Mr. Kern explained that if we hadn't embarked in conservation in the 1970s we would need 15 percent more in resources than we have today.

Ms. Monrad asked whether we can expect customers to invest in conservation during a bad economy. Mr. Kern said all that is factored in cost study.

Mr. Leiber said he will provide information on the effects of a PRAM on our borrowing ability. Mr. Kaufman asked also for details on long term impacts of lowering our debt coverage ratio.

Mr. Kaufman asked for dollar examples of the impact of PRAM, first year rate increase, coverage rates and new ideas for surplus power sales. He said the utility needs to become less dependent on power sales.

Mr. Gering said that's the root of the problem. He said the problem was not a policy issue, but about lower revenue in energy prices, and that City Light does to match that. He said wants to see the impact of making the changes to a smaller SCL. Mr. Gering asked about what drives the staff size at SCL, and said the reasons are not clear. Mr.

Leiber referred to handouts from previous meetings that detailed how programs approved by the Council increased staff size by several hundred in recent years.

Mr. Kaufman said problems with customer service and employee morale led to some staffing increases, and that City Light needs staff to maintain service.

Mr. Kaufman said it hard to make the case for a rate increase when the commercial buildings are experiencing a 19 percent vacancy rate.

Mr. Yang explained that we haven't had a rate increase since 2003, and actually lowered rates by 12 percent. The last significant raise was during the 2001 energy crisis, when rates jumped 58 percent.

Mr. Yang said the 2001 crisis forced us to borrow money to buy power, and since then the City decided to not have to borrow to meet resources. He said the new policy still gives customers value, because we can sell excess power and keep rates low. We've come to rely on power revenues.

Mr. Price asked to frame the question in terms of staff efficiency. He's interested in data.

Mr. Leiber said the budget proposal has all those benchmarks.

Mr. Simpson reminded the committee that City Light still hasn't finished upgrading its 4kv system to 26kv, a project that started in the 1970s.

Mr. Gering asked for details on the ongoing state audit. Mr. Yang said the audit is looking at how the City charges us for services.

Mr. Kaufman expressed reluctance to adopt a PRAM that shifts the cost of market volatility to the rate payers. He wants the triggers and rules for raising or lowering rates. Mr. Leiber referred him to the handout that explained the PRAM (see handout for details). The bottom line is that there's a 35 percent probability per quarter of a surcharge, ranging from 2/10 of a penny to a penny per kilowatt hour. It only lingers if costs continue for more than one quarter.

Mr. Kilduff explained that all these figures are based on a statistical average, not the extreme end of a distribution curve.

Mr. Yang explained that the average maximum cost to a customer would be 10 percent, or $4, in their bill. He said installing 10 CFLs and one shower aerator would mitigate the cost.'

Ms. Monrad objected strongly to this argument, saying most customers already have changed to CFLs and it's disingenuous to ask them to do that.

Mr. Kaufman said we need to focus on reliability of rates and service. He said if the PRAM is not the way to go, you can raise rates or you can borrow to raise reserves. He wants to know the cost in the long term.

Mr. Kilduff said it is unlikely for a lender to lend you money to run your business.

Mr. Simpson redirected the discussion to the Mayor’s proposal. What do people feel about the proposed 8.8 percent increase? he asked. Do we talk about that before we get to the PRAM?

Mr. Gering said the price of gas is transitory, and he would like to see what a smaller City Light looks like. He said he needs an answer before he will consider a rate increase. He wants a City Light small enough to afford training and other returns on value. Mr. Leiber said we are prepared to produce that information.

Mr. Hausman said the committee is not interested at looking at asset management plans or the Duwamish cleanup, but instead an understanding of why an 8.8 rate increase is necessary. He thinks the increase is too high, and that the proposed PRAM passes volatility to the customer. He wants to look at the middle, not the extremes.

Mr. Hausman asked for an estimate of what employment at City Light would look like under a 4.4 rate increase. Mr. Leiber said that it would mean a cut of $20 million in the budget, or 200 people. Mr. Simpson said a cut like that would trim high voltage workers from staff. Mr. Hausman asked if we’ve looked at all the scenarios. Mr. Lieber said the budget looked at the effects of cuts in quartiles, and could provide that book if necessary.

Mr. Kaufman said the committee wants a detailed look at what the utility would look like with a 4.4 increase, specific reasons for the wholesale power resale forecasts, and more confident load growth estimates. He asked staff not to include an officer presentation at the next meeting.