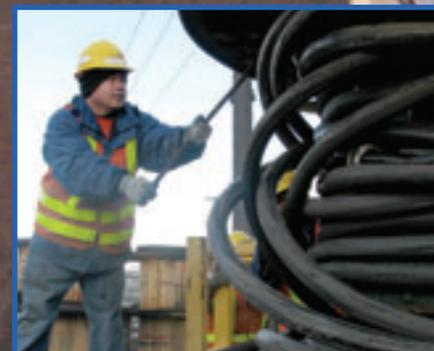


Your Energy Future

Seattle City Light's Strategic Plan



Our Vision

To set the standard and deliver the best customer service experience of any utility in the nation.

Our Mission

Seattle City Light is a publicly owned utility dedicated to exceeding our customers' expectations in producing and delivering environmentally responsible, safe, low cost and reliable power.

Customer Service

- Being prompt and timely.
- Improve reliability.
- Provide solutions.

Employee Performance & Growth

- Reward exceptional performance.
- Invest in employee development and training.
- Provide career growth and learning opportunities.

Operational Excellence

- Improve productivity and achieve cost effectiveness.
- Measure and improve performance.
- Minimize environmental impact.

Financial Strength

- Ensure long term financial stability.
- Preserve and enhance our assets for long term.
- Manage risks.

Our Values

Excellence

- Safety is our number one concern.
- Empowering our employees is essential to providing exceptional customer service.
- We anticipate and meet customer needs.
- We believe diversity makes us stronger.
- We believe that continuous improvement strengthens us.
- We are stronger working in teams made up of people from many parts of our business.

Accountability

- We value ownership of decisions, actions and results.
- We measure our success against expectations and accept responsibility.
- We encourage sound delegation practices that promote a supportive decision making culture.
- We are committed to the highest standards of ethical behavior.

Trust

- Our word is our bond.
- We are honest, open and respectful in our communications with each other and with customers.
- Our customers rely on us to keep our commitments.

Stewardship

- We are entrusted with an irreplaceable hydroelectric legacy.
- We work to ensure the success and benefits of public power.
- We must enhance, protect and preserve our assets and the environment.

Table of Contents

Executive Summary	4
Introduction	6
Seattle City Light’s Strategic Landscape	7
The Electric Power Industry	7
Regulation and Governance	14
Utility Condition	17
Strategic Landscape — A Summary View	22
City Light’s Strategic Plan	24
Environmental Stewardship	25
Improved Energy Delivery Infrastructure	26
Balanced Resource Portfolio	27
Financial Strength	27
A High-Performance Organization	28
Strategic Plan — Financial Outlook	29
Appendix A. Strategic Plan Descriptions	31
Appendix B. Glossary of Terms	40
Appendix C. Community Engagement	41

Executive Summary

Seattle City Light serves nearly a million people in Seattle and nearby cities. We lead our industry on issues ranging from how we protect the environment to how we manage our resources. Our size and stature, though, do little to prepare us for the rapid pace of change the power industry faces. The coming years require a clear vision and a plan that can adapt to both known and unforeseen events that might occur. This document is our plan to meet the challenges ahead.

For more than 100 years, Seattle City Light has earned its place among the country's most reliable power systems. Our customers enjoy low rates and find pride in knowing that City Light works with fervor to protect the natural wonders that surround us. Soon, though, the challenges we face as power suppliers will test us more critically than ever before:

- Climate change issues will affect every aspect of our industry and the need to lessen our impact on global warming will grow more urgent during the next few years.
- Technology will continue to challenge what we do and how we do it, giving us new options while forcing us to make hard choices about which we should adopt, when we should adopt them and how we might pay for them.
- Customers will expect us to show even greater leadership that reflects the values of the communities we serve.



This plan reflects a broad review of the issues facing City Light at this time. It has identified long-term priorities and a strategic agenda that we believe should frame how we allot our resources in the coming years. This is the most comprehensive planning effort City Light has done in more than a decade. We envision this to be a dynamic document

that we will adjust if necessary to changing needs. We will seek input from the Mayor's office, the City Council, customers and others who have a stake in how we deliver power to this region.

Our mission is to do more than our customers expect to provide them with low-cost, reliable power that is safe to use and is environmentally responsible. This plan aligns with our mission.

The first part of this plan looks at what we call the Strategic Landscape. It provides a detailed picture of the world of power supply today as seen from our place here in the Northwest. Three sets of realities define our current landscape.

First, major changes are sweeping through the electric power industry. Government ushered in those changes by requiring utilities to meet new, tougher standards. More than the government is at play, though. Technology





is moving quickly, challenging what just a few years ago were unquestioned ways of doing things. Also, consumers are more engaged than ever before pushing for reforms and changes in our industry in order to safeguard the planet from greenhouse gases such as carbon dioxide emissions.

Second, government at every level wants more say in shaping the way our industry evolves. At the local level, we are accountable to the City of Seattle. Seattle has a long history of environmental stewardship and we expect that our operations will be tested by that filter. Likewise, maintaining financial stability and adhering to strict risk policies are expected.

At the State level, Initiative 937 requires that City Light boost its use of renewable energy sources starting in 2012. We expect other standards to emerge.

We expect more influence in energy matters from the federal government as well. Many expect the new administration and Congress to insist on a bigger role in freeing the U.S. from dependence on foreign energy, as well as to work more actively to stem climate change.

Third, City Light's infrastructure needs help. We depend on hydro-generation, which has blessed us with a clean



supply of energy at low rates. But as the demand for power here grows, City Light must turn to other sources to meet that need. Those sources will be diverse both in type and in location. How we plan to acquire and use resources must change. We must also redouble our efforts to change the way our customers use energy so that they choose to use less of it. We also have fallen behind on updates and upgrades to our distribution system. Nor are we ready technologically to meet the expectations of those we serve when it comes to customer interaction in the 21st Century.

City Light faces another big challenge internally. The average age of our work force is nearing 50. In fact, a large segment of our workers are either at retirement age or soon will be. We need to find, attract, train and prepare a new generation of workers.

The plan on the following pages identifies five key priorities:

- **To protect and enhance the environment** through our choices in power supply, how well we guide our customers to conserve the energy they use, how we run our day-to-day operations, and the value of our environmental programs.
- **To strengthen and improve our energy delivery infrastructure (poles, wires, transformers, etc.)** so that we offer a reliable platform for our customers and the City itself to thrive both socially and economically.
- **To develop a cost-efficient portfolio of power resources** that responsibly and legally meets our customers' needs.
- **To ensure that the utility is financially resilient** to protect our customers from the risks that arise due to our hydro-dependence and from our many links to the broader power market.
- **To build on City Light's existing strengths in ways that transform the utility into a high-performance organization**— acting as an effective, well-supported team that delivers the best possible customer service.

These priorities have guided the utility in the past. The steps taken in response to the priorities in the future will be tuned to meet the circumstance described in this plan.

Each priority offers its own objectives and steps to achieve them. They all will come at a cost. For instance, relicensing the Boundary hydro-electric generation facility by 2011 will be costly but central to our future strategy. We do not know the costs for many of the projects, but we must prepare for them nevertheless.

The power industry is entering a time of change. Whether it is also a time of turmoil or triumph for City Light rests with how well we plan, then how well we act on our plans. With this document, we have taken a step toward mapping a path to our mission of providing low-cost, reliable, safe and earth-friendly power.

Introduction

For more than a century the city of Seattle has enjoyed one of the least expensive, most environmentally benign, and most reliable electric utility systems in the country. During most of this period, Seattle City Light has operated within a stable regional market that offered predictable wholesale power prices, ample transmission, and straightforward customer expectations.

The supply shortage and price shocks of 2000 and 2001, however, signaled a change in the electric power environment. A season of exceptionally dry weather that diminished the amount of hydro power available, an ill-timed sale of a generating plant, and faulty assumptions regarding the trend of market prices combined to force City Light to incur nearly \$600 million in unplanned power purchases in order to meet its power supply obligations to its customers. These forced purchases drove electricity rates up by nearly 60 percent.

The incident provided a vivid demonstration that City Light operates amid substantial risks:

- Long-term power resources may not be adequate to support the power needs of the city
- If those resources are available, the price may impose unexpected and unacceptable costs on City Light customers
- The infrastructure over which power is conveyed to customers may become unable to support growing loads and new resource locations
- The skills and talent needed to manage all the other risks while delivering superior service may be unavailable to City Light.

The 2000 crisis was a symptom of these risks. We addressed that symptom and we survived it, but we cannot afford to ignore its broader implications and lessons. In order to manage these challenges responsibly, while sustaining and improving the standards of electric service the City needs and expects, Seattle City Light has undertaken a broad review of its current position, its direction, and its resources. In light of that review, we believe that several long-term priorities become clear. Those priorities yield a strategic agenda that should frame our efforts and our expenditures over the next several years.

The current document sets forth City Light's view of its future. We intend to shape our budgets and our operating plans to implement strategies outlined in this document.

As a part of the City government, we intend to share and refine this strategic plan with our governance institutions and our customers, as well as with our employees and the many stakeholders who contribute to the accomplishment



of our mission. We also recognize that the foundation for any plan evolves over time, not only in its specifics but even in its broad strokes, and that the views of City Light's stakeholders will play a large role in that evolution. We hope that this 2008 Strategic Plan will furnish a useful starting point.

The specific initiatives outlined in this strategic plan will guide City Light over the next three to five years. However, our challenges are shaped by trends and developments that extend well beyond that time period. For that reason, we have tried to envision changes in our long-term environment, stretching out in some instances ten or more years. Given the uncertainties ahead, it seems prudent to limit our specific plans to the shorter period, but those plans need to take account of a much longer time horizon.

We begin with an overview of the circumstances that define City Light's strategic landscape today: the important dynamics of the electric industry, the regulatory and governance expectations and guidelines we operate under, and the current condition and performance of Seattle City Light as an institution. In light of those circumstances, we propose the strategic priorities, objectives, and initiatives that are needed in order to achieve our institutional mission. Finally, we describe the planning mechanisms and execution schedules that we propose to follow in order to implement this plan.

Seattle City Light's Strategic Landscape

The challenges and opportunities that Seattle City Light faces — the elements of what might be called its strategic landscape — arise from the intersection of three sets of realities.

- Transformation of the electric power industry, prompted by regulatory reforms, by technology, and by evolving public concerns. For City Light, this transformation presents new options, sets new standards of performance, requires new capabilities, and poses new risks. We also expect changes in what our customers face and what they expect from their utility.
- The regulation and governance under which City Light operates, which define the utility's mission, set its expectations, and frame its scope and methods of action. As a municipal utility, City Light exists to serve its public constituencies. As state and regional public policy evolves in response to growing environmental concerns, and as the City of Seattle evolves in response to growth and to emerging economic and social needs, City Light faces increasingly complex demands from those constituencies.
- The condition of the utility itself, which as an institution needs to continue its long tradition of superior service and public ownership while responding effectively to its many challenges. The financial resources, the talent, the focus, and the methods City Light employs will determine how well it succeeds.

City Light's strategic planning begins with an assessment of these realities.



The Electric Power Industry

Virtually all electric power utilities perform a similar set of activities: they generate or purchase power, and they move that power to customers through a network of transmission

and distribution lines. Given these similar tasks, it is notable how broad a variety of institutions has arisen to perform them — created through a mix of federal, state, and municipal regulations. In governance these institutions include shareholder-owned corporations (more than 200 in the U.S.), municipal agencies and publicly owned utilities (more than 2000), power cooperatives (more than 800), and federal agencies including BPA. In size they range from over 6 million customers to fewer than ten, and in annual revenue from more than \$20 billion to less than \$1 million. In operations they range from simply delivering power to homes and businesses, to also operating transmission lines, generating power, marketing wholesale power, constructing and managing power systems, and providing an array of energy services.

With such variety, it is not surprising that many developments of great importance to some segments of the industry have little impact on others. Some developments, however, affect profoundly the entire industry, and need to be acknowledged in any long-term plan for City Light. In our view, the industry developments that are shaping City Light's strategic landscape are:

- The continuing evolution of an unregulated market in wholesale generation
- Growing public concern nationwide with greenhouse gases and carbon emissions
- Public policy favoring the development of renewable energy resources
- Regional supply and transmission constraints
- Evolving customer needs and service expectations
- An aging infrastructure (poles, wires, transformers, etc)
- Intense technological ferment with respect to both generation sources and distribution systems.
- An impending cycle of high investment
- An industry-wide scarcity of needed human resources

Wholesale market

Prior to 1992, most utilities self-generated sufficient amounts of power to serve their assigned customers. When a utility found itself in need of additional power, it was able to buy it from a neighboring utility, more or less at the cost of production, under reciprocal give-and-take understandings. The price of power for each utility was set to cover the utility's average total cost of producing power.

The Energy Policy Act of 1992, by deregulating wholesale power markets, changed this pattern. The Act was designed to make wholesale markets more efficient through competition, and it arguably accomplished that purpose. In doing so, it also had several other effects. First, it uncoupled wholesale prices from average total cost, and linked



them instead to marginal production cost. That is, the wholesale market price was now set by the last generating unit engaged to supply the demand in that market at any given time. Consequently, prices changed, sometimes dramatically and instantly, as power demand and power capacity rose and fell. This volatility in price introduced a major element of unpredictability to all participants in the power market who were in any way exposed to wholesale transactions.

Second, as buyers and sellers of power looked for the most favorable prices and terms, transactions in power began to cover much longer distances than before, and many long-distance transmission lines began to experience chronic congestion. The need for fair transmission pricing under such circumstances led to the establishment under federal encouragement of Regional Transmission Organizations (RTO's) — quasi-official entities charged with managing regional transmission systems. The new levels of physical stress on the transmission system led in turn to heightened levels of federal concern over system reliability — especially in the aftermath of 2003's multi-state power failure stemming from a transmission breakdown in Ohio.

Third, the complexities of transmission pricing, including the various marketable rights established by RTO's, plus the inherent volatility of wholesale prices, prompted leading market players to develop sophisticated purchasing and selling capabilities and complex trading instruments. The profits available from sophisticated mastery of a market that was confusing to most participants encouraged significant extensions of commitment and risk. The risk-management capabilities employed by the industry, which were reasonably successful at managing short-term market volatility, proved less successful in preparing for more fundamental market shifts. In 2000 the western U.S. experienced that kind of fundamental shift: a overall supply to fell well short of demand. Power prices rose sharply to levels well above those anticipated in most companies' risk assessments. Seattle City Light was among many utilities swept up in the financial meltdown that ensued.

For City Light, this reshaping of the wholesale energy market has two important implications. First, it has introduced a significant, heightened source of financial risk. Because City Light is obliged to provide its customers whatever amount of power they desire, and because its own generating capacity is finite, there will be times when it must buy power from the wholesale energy market. Because City Light often has a surplus of power, there are also many times when it is able to sell power into the market. The revenue obtained from those sales is an important contributor to City Light's favorable rates. Consequently, City Light is unavoidably exposed to the wholesale energy market, as both a buyer and a seller. That market today is susceptible to broad price swings. City Light should not face those exposures without the support of strong, state-of-the art capabilities in power risk management. This is not a need City Light faced 15 years ago; it is a need today, and will be an increasingly urgent need in the future as power markets continue to tighten and as power prices grow more volatile.

These developments highlight the fact that City Light cannot take its traditional power sources and transmission systems for granted. The opening of wholesale markets has invited new demand for the inexpensive power produced in the Pacific Northwest. That expansion of demand has stressed the existing hydro-electric and transmission resources. The challenge that this elevated level of demand poses for City Light is not only to manage short-term risk exposures in the market, but also to prepare for long-term energy supply contingencies through a resilient, diversified power supply plan. This too, is a need that has emerged only in recent years.

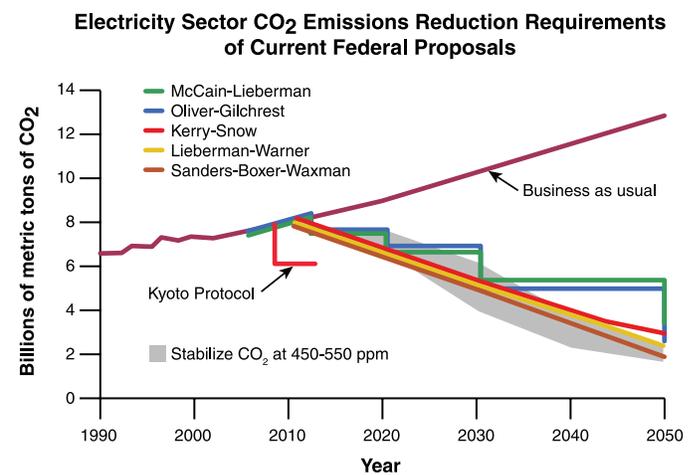


Figure 1: Comparison of Climate Change Proposals in 110th Congress—CO₂ Emissions 1990-2050

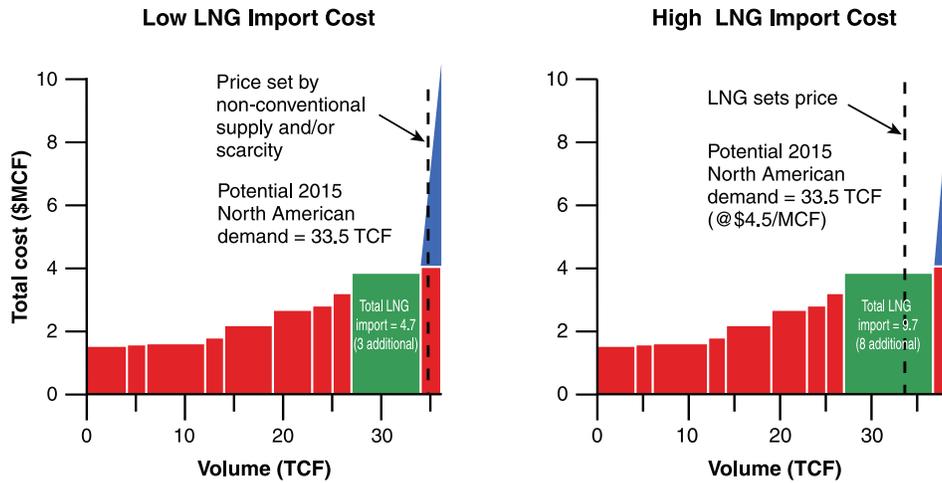


Figure 2: The Future of Gas Prices

The carbon problem

More than a third of the U.S. output of man-made carbon dioxide (CO₂) is emitted by electric power generators. This circumstance makes it highly likely that if a national carbon regulation regime is adopted, it will address, among others, the power industry. The leading bill among the various proposals currently under consideration by the U.S. Congress is the Lieberman-Warner Climate Security Act of 2008. That measure would establish a cap-and-trade system aimed at substantially reducing U.S. greenhouse gas emissions, measured in ton-equivalents of CO₂. Under Lieberman-Warner, the 2050 target established for covered sources is 70 percent below 2005 levels. While other proposals vary in the specific rules they would apply, all aim toward similarly substantial levels of emission reduction. No federal legislation passed in this session, but the expectation is that this topic will be dealt with the new administration and the next Congress.

Seattle is a national leader in championing efforts to address climate change. Seattle's Climate Change Now is one example. This program challenges City departments and the citizens of Seattle to work together to meet or beat the Kyoto green house gas (GHG) reduction targets. Conservation is a key element of any program to reduce GHG in the atmosphere. The City has issued another challenge to reduce building energy consumption by 20% and has set up an Energy Efficiency Fund to address the financing of these efforts in City buildings. In addition to these local efforts, Seattle's Mayor is leading this effort at the national level through the national Mayor's association, and has to date over 800 cities committed to this important effort.

Coal-fired plants provide more than half the power generated in the U.S. and are one of the largest sources of CO₂ emissions. Depending on how expensive it turns out to

be for coal plants either to contain CO₂ emissions or to buy allowances to cover those emissions, and depending also on the price of natural gas (the most prevalent alternative to coal), a major portion of the country's coal-fired plants could become uneconomical. Because the standards that will be imposed by future carbon regulation are not known today, the long-term price and viability of coal-based generation is a matter of great uncertainty.

The price of natural-gas-based generation is similarly difficult to predict. As Figure 2 indicates, much depends on the future of liquefied natural gas (LNG) — a product that allows natural gas-rich regions to ship gas to receiving ports worldwide. At low levels of LNG, the US natural gas market remains as it has traditionally been, a domestic market—with demand outstripping supply and driving up prices. At high levels of LNG, the US natural gas market becomes part of a global market, in the sense that domestic price will be set by the price of LNG, and the price of LNG will be set by global supply and demand. In a high-LNG scenario, it is likely that the long-term domestic price of natural gas will be lower than in a low-LNG scenario, but a new source of price uncertainty will emerge — global price swings of the kind experienced in today's oil markets. Moreover, any reduction in coal capacity that might be forced by carbon regulation will increase the demand for natural gas and exert upward pressure on natural gas prices.

(Note: The above graph was derived in late 2007. During 2008, natural gas traded above \$10 per MMBtu and below \$5, which serves to emphasize the point — natural gas price is likely to be highly volatile).

These two uncertainties — the future cost of natural gas and the potential future cost of CO₂ — have induced a high and understandable degree of caution in the power industry. Planned generation investments are being postponed because they present too high a level of risk.

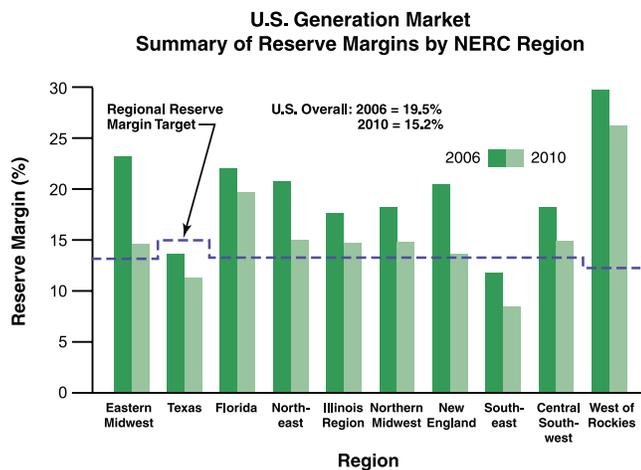


Figure 3: Estimated Reserve Margins by NERC Region

As a result, reserve margins throughout the country — the amount by which available capacity exceeds expected peak demand — are declining (Figure 3), and wholesale power prices can be expected correspondingly to rise.

Although City Light today produces minimal amounts of CO2 and operates no natural gas-fired power plants, developments in these areas have strategic significance for us. General demand for reliable, inexpensive hydro power will likely grow in coming years, contending for a fixed supply. Market and political pressures on Northwest hydro resources and Northwest transmission resources will intensify. If reserve margins are allowed to shrink, wholesale power prices will be increasingly volatile. These developments may limit the hydro resources available to City Light; at the same time they will likely increase the value of the hydro resources that City Light retains. The combination of elevated volatility in power markets and elevated value in the utility’s power assets underscores the

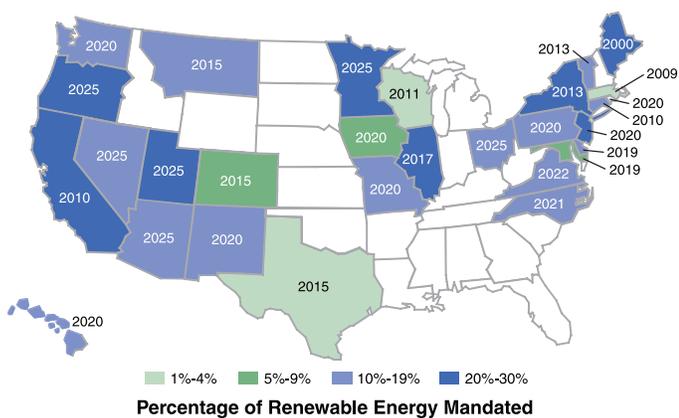


Figure 4: Current State Renewables Mandates

need for strong capabilities in wholesale energy markets and energy risk management.

Generation from Renewable Sources

In the absence (so far) of federal regulation of carbon emissions, states have resorted to the device of mandating that a certain percentage of the power sold by their resident utilities be generated through the use of renewable resources. These resources are generally assumed to include wind, sunlight, tides, geothermal energy, biomass, and flowing water — although this last category is sometimes (as in the State of Washington) excluded. As Figure 4 indicates, standards and timing vary from state to state, but they are common, and will increasingly play a role in the industry’s investment agenda. The stringent Renewable Portfolio Standard (RPS) adopted by California in particular has ramifications throughout the western region as California utilities aggressively seek out regional sources of renewable power.

One of the objects of these mandates is to create sufficient targeted demand to bring down the current high cost of renewables. In the long run, that strategy may well succeed, since some of the technologies — in particular solar — appear to be scale sensitive. However, the process of ramping up development is imposing its own short- and medium-term cost increases, as the sudden demand for renewables technologies outstrips the existing capacity of manufacturers to supply products. With increased deployment of wind generation over the past two or three years, for instance, the cost of wind turbines has increased by almost 12 percent each year. It is likely, at least in the short term, that the solutions imposed by these mandates will raise the average cost of power production.

Moreover, the potential to develop renewable power sources is not evenly spread. Solar power is more promising in some areas of the country than others; the Pacific Northwest is relatively inhospitable. Most geothermal technologies require high earth temperatures at shallow depths — conditions that occur in only some locations, although areas of the Pacific Northwest appear to be among them. Wind is ubiquitous, but not at the steady, strong levels currently required for efficient generation, and even where such conditions prevail substantial areas of land are needed to provide an efficient scale of generation. The practical potential for near-term development of renewables is therefore finite. In the dash for renewables, Washington utilities will likely find themselves in competition with utilities from other states, notably California, whose renewables mandates took effect a few years ago and who have been lining up potential sources in the time since.

For City Light this industry trend poses a pressing need for early action. We need to develop and implement a renewables strategy that will achieve compliance with



Washington State standards while limiting the rate impact as much as possible — all as part of a coherently envisioned resource portfolio. This matter is addressed in SCL's Integrated Resource Portfolio planning and the latest plan is on the Seattle web page.

Regional supply and transmission constraints

In order to carry electric current efficiently over long distances from large generation sources to the local distribution points that serve end-use customers, high-voltage transmission lines are necessary. A period of major investment in transmission lines in the Northwest came to a close around 1980. Since then, population and economic growth have steadily driven up power consumption, but investment in new transmission capacity has not kept pace. This regional pattern is reflected in the U.S. at large. Concern over the adequacy of the national transmission grid was a primary motivation for the Energy Policy Act of 2005.

This situation poses a long-term threat to Seattle's power reliability. Three-quarters of the power consumed in Seattle comes from sources located outside the Puget Sound region, and therefore depends on long-distance transmission. Although City Light has contracts for the use of those lines, deliveries under some of those contracts are subject to curtailment when the transmission system is overtaxed. As the load on the system approaches the system's physical limits, it is increasingly difficult to take portions of the system out of operation for normal

maintenance and replacement without incurring such situations of overtaxed capacity. Moreover, any plans to import power from resources east of the Cascades or south of Tacoma — for example, from wind farms — will have to take account of the need for additional transmission capacity.

A number of potential solutions are under consideration. One partial solution is new dispatch protocols under consideration by the Bonneville Power Authority (BPA) that favor the kind of firm contract that City Light holds. Several transmission projects have been proposed by for-profit utilities and transmission developers. A Puget Sound Area Study Team has been formed with Columbia Grid, of which City Light is a member, in order to develop a comprehensive ten-year plan for additional remediation. It is likely that a combination of all these initiatives will be necessary to assure continued reliability and to permit continued growth and diversification of City Light's supply sources. Even when everyone has agreed on the need for transmission, the actual siting and construction often proves difficult and time-consuming. Planned solutions might not take effect for a number of years. In the meantime, the transmission challenge will remain a critical constraint in City Light's power supply planning.

Another complication for power supply arises from the need to renegotiate City Light's contract with the BPA for long-term power supply — the source of 40 percent of City Light's current energy intake. The contract with BPA

has been recently re-negotiated and, has been signed in December 2008. It will take effect in 2011 and will be in place for 17 years.

A third complication is the uncertain future availability of City Light's Boundary Dam facility — a hydroelectric project that is currently our largest owned power resource. The current operating license for Boundary expires in 2011. As conditions of relicensing, City Light may be required to make substantial capital investments in order to mitigate perceived environmental impacts, as well as to make adjustments in operations that decrease the amount and value of power generated.

Evolving customer needs

Customer expectations regarding utility service are rising, and are likely to continue to rise. Those expectations include:

- Exceptionally high reliability and power quality to support an increasingly computer-linked lifestyle and to enable the high-tech processes that drive today's economic growth.
- Collaboration in carbon reduction and energy conservation — an expectation that power companies will provide the information tools and the consumption options needed for customers to manage their energy use.
- Facilitation of green, sustainable construction and on-site power generation, primarily through solar devices — a trend that will likely lead to a proliferation of micro-generation sources seeking access to the grid.
- Accommodation of plug-in hybrid electric vehicles (PHEV's) to the market over the next five to ten years. It is expected that these vehicles will reduce automobile emissions by running purely on electric power over normal commuting distances. Ideally, from the utility's perspective, that power would be drawn from the grid during off-peak hours of the day (say, 10 pm to 6 am), thereby helping to even out utility generating loads but at the same time increasing the overall energy requirements of the utility. We will need to watch the how fast the transition to electric transportation unfolds and respond accordingly.

Over the next ten years, these expectations will reshape the standard utility business model. Instead of operating a one-way supply chain that ends at the customer, utilities increasingly will have the role of network transaction managers. Myriad suppliers will be connecting with myriad buyers, operating through a system of real-time pricing signals and consumption data. The utility's role in facilitating the transactions involved will require a higher degree of customer engagement and a more sophisticated system of network data management than currently exists in the U.S. industry.

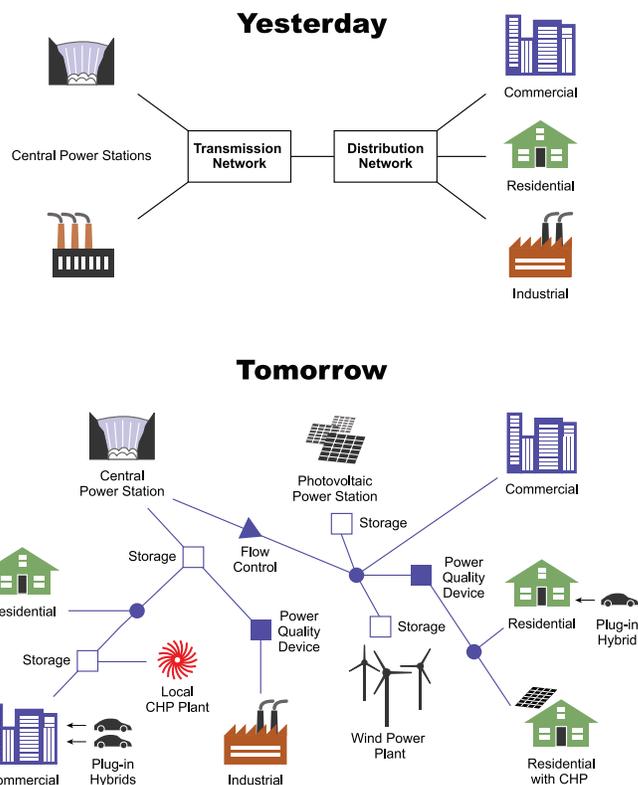


Figure 5: Adapting to New Customer Needs

These expectations are likely to emerge with particular force in Seattle. A city that is basing much of its economic development strategy on supporting growth in high-tech industries must offer its community superior power quality and reliability. A community that has consistently indicated its commitment to environment-friendly policies, and that has consistently supported active public policy on behalf of environmental protection, will insist on workable solutions for distributed renewable generation, conservation, and low-emissions transportation.

This new utility role requires a technologically advanced energy delivery infrastructure and sophisticated customer communication capabilities. Most important, this new role requires far more flexible and powerful information management capabilities than exist today at any U.S. utility. For City Light, it will require major capability upgrades in multiple areas. Reshaping the utility role lies in the future, but it affects investment choices today. The near-term integrated resource planning that City Light conducts, and the near-term programmatic commitments we make, will affect our capabilities ten years from now. Those plans and commitments must take account of this emerging customer paradigm. Early commitments being made in Seattle City Light capital planning reflect increased focus on reliability and power quality and the

City's emphasis on undergrounding more of the utility's distribution system.

Technological ferment

The industry is in the midst of an unusually active period of technological change. Reducing the rate of carbon emissions, complying with renewables mandates, handling increasingly complex customer needs, managing with



precision the demand side of the power market as well as the supply side, facilitating multiple customer means of linking to the power grid, are all dependent on technology that is in varying stages of development. Rising

power prices and substantial government investment in the past two years are accelerating that development to a degree that could present a different mix of opportunities in five years from those available today.

For City Light, this circumstance would seem to have several implications:

- We need to recognize that specific technologies are evolving rapidly, and that commitment to any particular technological solution needs to be made with an understanding of the options available and their development trajectory; in particular, the technology risk associated with some renewables.
- While being cautious of premature commitment, we need to be prepared to take advantage of technology at the right time — when it appears effective, sustainable, and efficient in accomplishing City Light's objectives. The ability to manage technology options in this fashion will be vital as we lay out investment plans for the next ten years.
- We have an opportunity to provide leadership with the City and with the broader community in developing energy solutions:
 - City Light today leads the nation in the per-capita investment it commits to conservation.
 - Seattle has the human capital and the technological sophistication to play a leading role in the energy-related technological advances that will emerge over the next decade — in solar voltaics, plug-in hybrid electric vehicle's (PHEVs), carbon capture systems, biofuels, network information systems, and consumption efficiency.
 - Collaborative efforts between City Light, the City, and the community could prove fruitful in encouraging

research and in field-testing potential solutions. In coming years Seattle could emerge as a center for energy technology as it has already emerged as a center for information technology. City Light could play a strong role in supporting that development.

For example, Seattle is participating in a PHEV pilot program to gain experience with this potential development and is also assessing the potential impacts of PHEV's will have on demand for electricity in the future. Other key examples of City technology innovation include the initiative to increase citizen access to broadband communication networks and the City's encouragement of greater electrification of the transit systems serving Seattle.

Deferred investment and rising costs

To a substantial degree, the utility industry spent the 1990's coasting on the investments it made in previous decades. Among investor-owned utilities, the widespread introduction of "rate freezes" in the 1990's, while giving utilities the opportunity to make substantial profits through increased efficiency, also dampened traditional incentives to invest in infrastructure. Among publicly owned utilities, the reasons for this lapse in investment are more diffuse, but may reflect the political culture of the 1980's and 1990's that was skeptical of the need for public expenditure and resistant to rate or tax increases that might support them.

During this time a bow-wave of deferred investment accumulated that utilities are only now coming to grips with. Figure 6 indicates the turnaround of investment activity in transmission and distribution. Figure 12, further on in the document, shows that City Light's expenditures follow a similar pattern. Moreover, beyond what is reflected in Figure 6, virtually every industry trend noted above is

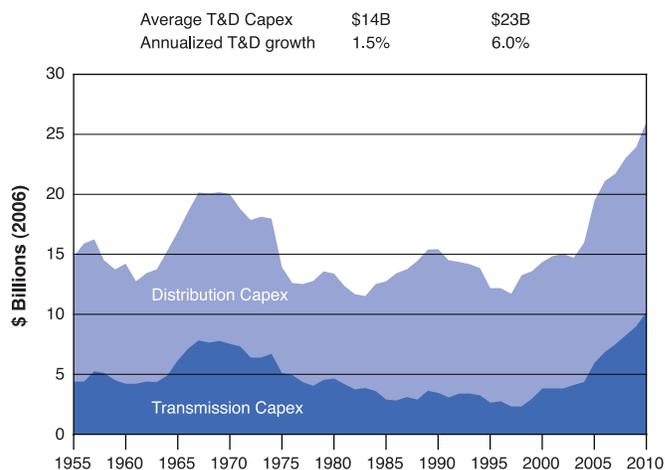


Figure 6: Historical and Estimated T&D Capital Expenditures U.S. Investor-Owned Utilities 1955-2010

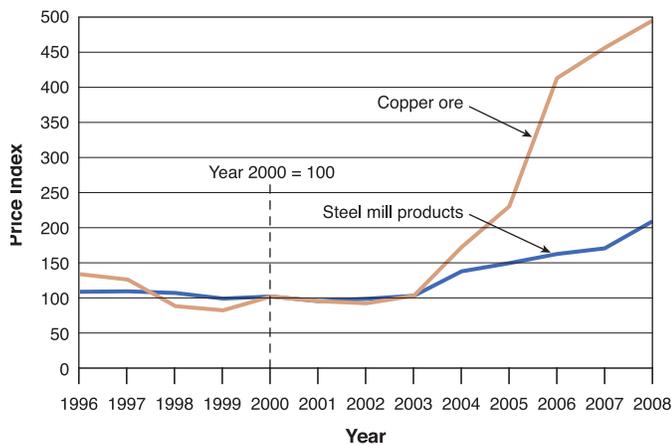


Figure 7: Basic Input Prices
(Indexed to 2000 = 100)

pressing utilities to make additional investments — not just to maintain existing energy delivery infrastructure but to enhance it: to provide greater reliability, more transmission, and enhanced network management capabilities to meet the exacting standards of the new high tech organizations that are choosing to locate in Seattle.

Figure 7 illustrates an additional trend that inconveniently parallels the need for new investment: a rapid rise in the cost of raw materials employed in such investment. This cost increase affects far more than the power industry; it stems from sharply rising global demand for basic commodities. As utilities address their investment requirements, rising commodity costs place upward pressure on electric rates in nearly every jurisdiction.

As City Light addresses its particular version of this challenge, we need to recognize that we will be dealing with an exceptionally tight market for commodities, contractors, and supplies.

Human resource scarcity

During the 1980's and 1990's the electric utility industry throttled back its traditional hiring rates as part of a strong drive for more efficient work practices. In the ensuing years, while the industry's work force was developing the skills needed to manage a larger number of utility tasks with fewer workers, it was also growing older. Today roughly 80 percent of all utility workers are above the age of 40. By 2010, it is estimated that 40 to 60 percent of today's experienced utility workers will be eligible to retire.

Between now and 2015, during the same period that today's skilled work force will meet retirement age, the industry dynamics we have already discussed are projected to require more than a thousand new power plant operators each year, and nearly two thousand new entry-level line

workers. The impending shortage of engineering and technical specialists is expected to be even more severe.

This problem is not unique to the power industry. Other industries are facing similar shortages (although not so heavily skewed by age), and are attempting to draw from the same pool of resources. A 50 percent drop in the number of graduating engineers from U.S. colleges over the past 15 years suggests that the long-term supply situation is not likely to correct itself in the near future.

Almost certainly, the consequence of these trends will be higher wages for utility workers and an increasingly competitive labor market for all utilities. City Light will be competing in that market with every other employer of utility skills, including investor-owned as well as public utilities.

Regulation and Governance

The second shaping force in City Light's strategic landscape is the regulatory and governance environment in which we operate. City Light is regulated by federal, regional, state, and municipal authorities, the last of which exercises direct oversight as well as providing general regulation.

Federal: The federal level of regulation has only recently become a significant strategic factor for City Light. The 2005 Energy Policy Act — designed to address the system reliability issues exposed during the 2003 eastern power blackout — expanded the jurisdiction of the Federal Energy Regulatory Commission (FERC). That jurisdiction, which formerly had encompassed only investor-owned utilities, now encompasses public utilities as well for a broad range of purposes. As a consequence, City Light today is guided by FERC regulation — and subject to FERC penalties — in a variety of areas, including reliability standards, cyber-security and physical security, and market manipulation. The regulations under these headings are detailed and numerous; over 100 have been issued so far.



Affected parties need to participate in the formulation and implementation of these rules, and need to devote careful attention and effort to achieving compliance.

Federal regulation of carbon emissions and renewables, if it occurs, will present significant additional compliance expectations. Although City Light's current carbon footprint is negligible, cap-and-trade regulation will nonetheless affect our options — by driving up power prices in markets we trade with, by increasing pressure on hydro sources, by offering potential new markets for emissions allowances, and by stimulating conservation activity nationally. In the event that renewable portfolio standards are established at the federal level, those standards will intensify the competition for resources such as land, turbines, and industrial materials that are needed for renewable power production.

For City Light, these actual and potential developments, in combination with the relicensing and recontracting issues noted above, impose a new need for federal policy engagement, and a new need for coordinated internal compliance processes. For example, City Light is providing input to climate change legislation to assure the needs of Seattle are addressed and to learn about the potential carbon emissions markets.

Washington (State) and region: At the State level, the most immediately significant regulatory factor is a commitment to renewable resources. The governing expression of this commitment is Initiative 937, which requires Washington utilities to invest in cost-effective conservation and to attain scheduled renewables benchmarks. Specifically, the portion of a utility's load served from renewable resources must be at least 3 percent by the beginning of 2012, 9 percent by 2016, and 15 percent by 2020. Any deficit must be covered through the purchase of Renewable Energy Credits (REC's). Although the general motivation for most such regulation is the desire to reduce carbon emissions, Initiative 937 excludes conventional hydro-power, which emits virtually no CO₂, from the category of qualifying renewable sources. Consequently, the percentage standards mandated by the State will require substantial investment by City Light, and will be a major factor in its near-term investment plans.

City Light has already begun pursuing purchase of renewables to meet the requirements, learning about the REC market and developing a program to accelerate the deployment of energy conservation which will serve to meet the requirements of I-937.

As noted earlier, the potential for near-term renewable development is constrained by a number of factors, and Washington is not the only state in the region with



renewable standards. In particular, since 2005 California has had even more stringent standards, requiring that 20 percent of supply portfolios be renewable by 2010. California utilities have consequently been aggressive in seeking out renewable development opportunities and in contracting for firm supplies of renewable power from existing resources, not only in California but throughout the western region.

The intense regional competition for finite renewables opportunities, combined with the ineligibility of hydro resources for satisfying the renewables standard, will likely force City Light into far higher-priced development costs or purchase agreements than are reflected in today's power portfolio.

The requirement to engage in "cost-effective" conservation becomes significant at this point. Conservation is considered to be cost-effective under Initiative 937 when it costs less than the most cost-effective alternative investment that might be made in additional generation capacity.

At the regional level, the various state Governors participating in the Western Climate Initiative have undertaken to reduce regional greenhouse gas emissions by 2020 to a level 15 percent lower than 2005 levels. The precise methods by which the Washington State will contribute to this regional effort have not yet been specified. How those methods will interact with current renewable standards and with potential federal greenhouse-gas regulation and renewable standards is, of course, unclear at this point. City Light will need to engage with this issue as it progresses to ensure that final standards are mutually consistent and achievable.

City of Seattle (City):

At the City level, the Mayor and City Council have articulated several expectations:

- Service reliability
- Customer energy efficiency
- Alignment with regional growth plans
- Lowest cost consistent with the City’s environmental stewardship, social equity, and economic development objectives
- No net increase in contribution to greenhouse gas emissions
- Collaboration with neighborhoods, design committees, and other City departments in planning, siting, and designing facilities.

City Light currently forecasts a long-term growth rate in overall electricity load of 0.8 percent per year — a rate similar to that experienced over the past 25 years. Growth in commercial and government load is projected to be 1.5 percent, while negative growth of -0.2 percent is projected for residential load. The City’s population is expected to increase, and will be more densely settled through growth in apartment and condominium units. That increase in density will increase the load intensity the existing energy delivery infrastructure must support. The City’s current and projected inflow of high-tech commercial and industrial customers, including the biotech development plans for North of Downtown, as well as several planned “server farms,” will require exceptionally high standards of reliability and power quality, with ample system redundancy. In addition, Seattle is likely to provide a receptive customer base for environmentally beneficial PHEV’s, and City Light will need to prepare for their presence.

In order to meet the City’s expectations, City Light will need to respond to these new realities through elevated reliability performance — to us this implies more sophisticated grid-management tools, investment in resilient underground networks, and overall strengthening of the distribution system. We will need to exercise considerable skills in resource planning and risk management to remain simultaneously a low-cost and a high-reliability service provider. To achieve significant strides in energy efficiency and to assure strong customer service, we will need to continuously improve our customer relationship processes and capabilities. To accomplish any of these purposes, we will require enhanced technology.

City Light also plays a vital role in helping meet the City’s commitment to environmental stewardship, but we could be even more effective in this effort if we had a stronger role in early planning. Optimal arrangements for energy efficiency take place well before ground is broken on new construction. We need a place at the table when new building is at an early planning stage, in order to pose



timely energy options, identify energy trade-offs, and anticipate and communicate impacts on the energy delivery system and the cost.

City Light is a public utility. The knowledge that we

are an organization established by and responsible to the community inspires us. We exist for no other purpose than to serve the residents of Seattle. That singular focus — undistracted by the claims of shareholders or the pressures of quarterly earnings — permits us to take a long view and challenges us to ensure that our investments, our operations, and our vision are attuned to the needs and the values of the City.

Our governance framework reinforces this role. City Light reports to the Mayor and receives budget authority from the City Council. This relationship helps align us with the priorities of the community and the evolving needs of the City. It also ensures that City Light continues to develop as one of the best public utilities in the nation — a leader in both customer service and environmental stewardship.

In order to accomplish the City’s expectations, City Light must have flexibility within City guidelines and administrative processes to address our distinctive challenges. In ways already discussed, City Light is linked to a broad electric power market. Providing the level of service expected by the City requires competency in dealing with the resource dynamics, the technological developments, the supply base, the mandates, and the risks that define today’s electric power industry. Investor-owned utilities and other public utilities face similar issues. They, like we, also face looming skill shortages, and are competing vigorously for the limited talent pool that provides those skills. Salary structures and compensation rules that do not reflect the market demand for labor may impede our ability to attract workers with the kinds of backgrounds that are critical to City Light’s long-term operational success.

It is worth noting also that City Light is a capital intensive enterprise; our costs are driven primarily by our energy delivery system and our power supply portfolio, and only secondarily by our payroll. With total payroll costs amounting to only 15 percent of our budget, in contrast to the 35% of the budget that goes to purchased power, it seems evident that the cost of securing and delivering power to City customers depends far more on the quality of decisions made by City Light employees than on their

pay scales. Moreover, City Light is economically self-sustaining; it typically generates revenue sufficient to cover its costs. To be optimally efficient, and to serve best the long-term needs of the City and its residents, City Light needs to deploy its resources not to reduce costs per se but to increase cost-effectiveness. Governance practices that focus simply on the utility's costs pose the danger of sub-optimizing City Light's efficiency and imposing a higher net cost burden on the ratepayers than necessary.

As City Light grapples with the challenges posed, we look forward to working with our governing officials and providing them with strong analysis, regular communication, operational transparency, and consistent delivery on commitments. We consider it our responsibility to ensure that City Light's distinctive role and needs are well understood and supported by our governance.

Utility Condition

The third shaping force in City Light's strategic landscape are the capabilities of the utility itself — its human, financial, and capital resources, its level of service performance, its capacity to manage risk, its flexibility in responding to circumstances, and its consistency of long-term purpose. This section discusses those issues under three headings — power supply adequacy, delivery capabilities, and institutional skills and culture.

Power supply adequacy

Figure 8 indicates the power sources that City Light draws on today to meet its customers' energy needs. Clearly, City Light is a hydro-based utility. This circumstance allows City Light to provide our customers clean, inexpensive power. It also exposes City Light to some risk, as our principal source of power supply is dependent almost entirely on the weather. When stream flows are greater than needed to support our customer base, City Light has surplus power to sell into the wholesale energy market. When stream flows are below these levels, City Light must buy from the market. Because City Light's power production peaks annually in late spring while customer need for City Light's power peaks in the winter, balance between supply and demand requires active engagement in the market. Power exchanges with other regions that experience different supply-and-demand peaks, knowledgeable buying and selling on the spot market and prudent hedging are necessary to maintain the supply needed by the City's customers and to ensure City Light's financial viability.

The Mayor and City Council adopted two standards to ensure that City Light has the financial resources to ensure adequate power supply. The first is to reduce City Light's ratio of debt to capital from more than 85 percent in 2002 to 60 percent or less by the end of 2010. By meeting

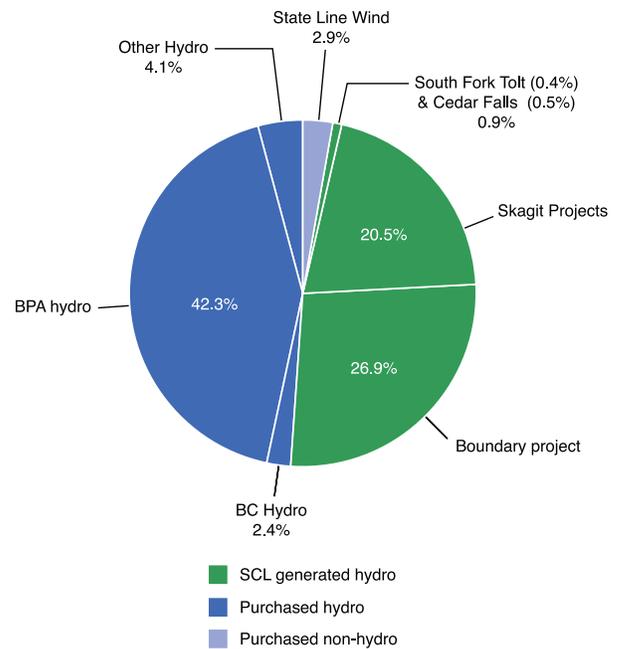


Figure 8: 2007 Sources of SCL Power

this standard we will ensure our ability to access capital markets as needed. As Figure 9 indicates, significant progress has been made toward meeting this standard, and we believe we are on track to achieving it on schedule.

The second standard recognizes the inherent variability of City Light's revenue, and sets a probabilistic benchmark for rate-making and budgeting purposes. Under this standard, rates and budgets are to be set so that City Light's net current revenues will exceed its current expenses and debt service with a 95 percent level of certainty. This standard contemplates that in 19 out of 20 years City Light will have a cash surplus that it can apply to its capital program.

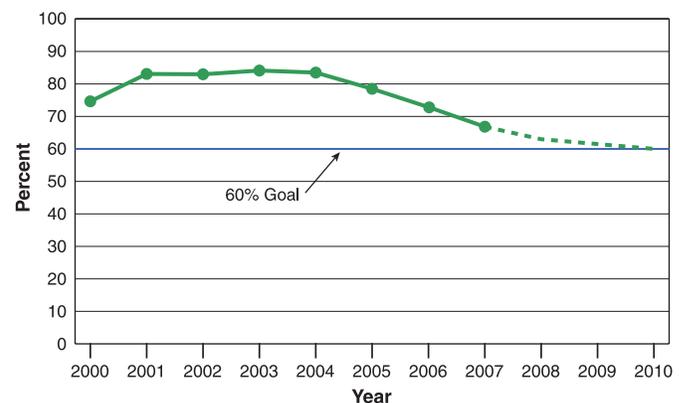


Figure 9: SCL Debt-to-Capitalization Ratio 2000-2010

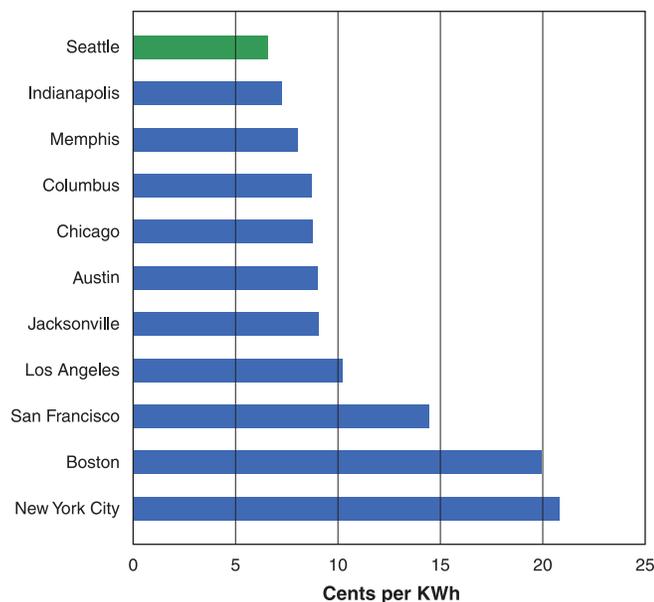
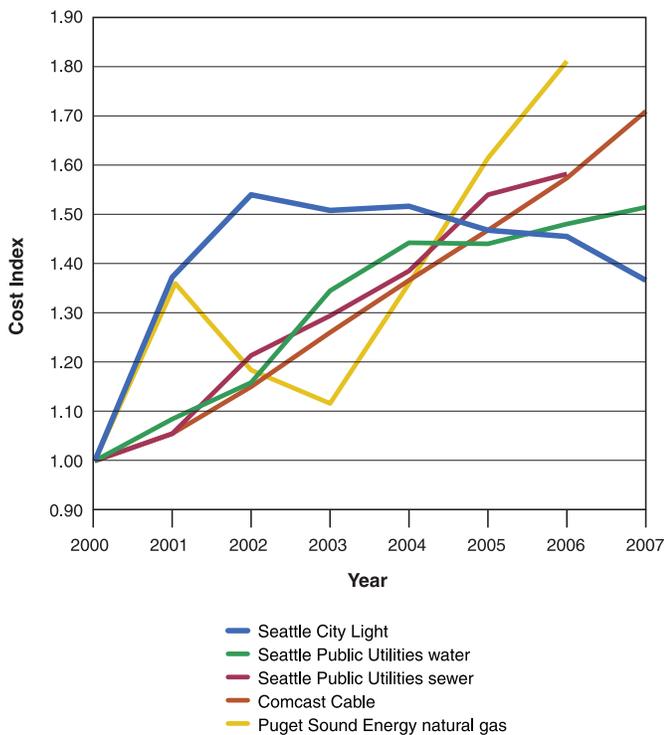


Figure 10: City Light Rates in Perspective

For budgeting and rate-setting purposes, a probabilistic assessment of available power is made, based on a 70-year historical base period of observed water flow.

City Light is currently managing our power supply resource portfolio in a way that meets our resiliency obligations. However, it is less clear whether we are managing that portfolio optimally — i.e. whether we could profit more from our power surpluses and hedge more prudently

against potential power deficits, for example using financial instruments to offset the risks in the power market. The circumstance that four out of the past six years have produced below-normal water flows, while none has produced above-normal water flow, raises the question whether water patterns are changing in ways that heighten the risk of energy deficits. The Advisory Committee has repeatedly observed that City Light needs a strong power-risk-management capability — whether obtained through in-house expertise or through external contract — supported by appropriate software and analytic tools. This is a pressing need for the utility.

The greatest power supply risk over the long term is the danger of finding ourselves in a state of chronic power deficiency. In that condition our committed and contracted resources would be insufficient to meet our load, and we would find ourselves obliged to rely on the volatile spot power market. In order to avoid that circumstance, City Light conducts detailed long-term resource planning.

Our Integrated Resource Plan takes a twenty-year view of resource requirements and draws on a detailed model of current and projected regional power resources and transmission capabilities. It integrates all the available options to find the best long-term solution in terms of ratepayer cost, supply risk, and environmental and regulatory compliance. Assuming that the community's need for power will grow at approximately one percent per year, the plan sets out a twenty-year timeline, updated biennially, of measures that must be taken to meet that load — including conservation, generation, and wholesale market contracts. Given the lead-time needed for engaging each of these solutions in the year required, many of the measures require attention several years ahead of their actual deployment.

In the next few years, we expect to satisfy our demand growth through increased seasonal power exchanges. After 2010 the combination of load growth and renewable requirements will require additions to our generation capacity — primarily through landfill gas, geothermal, biomass, and wind resources. Over the span of the next twenty years, our Integrated Resource Plan calls for an additional 500 average MW at a cost of approximately one billion dollars.

To the extent that investments in conservation can reduce the number of megawatts otherwise needed over this period, they will also reduce the needed generation investment. For this reason our conservation plan plays a central role in our supply resource planning, and has been for many years our first choice resource for meeting the City's energy needs. Through monetary incentives and information outreach we have encouraged the installation

of energy-efficient lighting, appliances, HVAC, and industrial equipment, the weatherization of residences, and the use of high-efficiency construction methods and materials. In 2007 these and other efforts reduced City Light's average capacity requirements by over 7 average MW. We believe that between 2008 and 2012 it will be feasible to reduce average capacity requirements by nearly 70 average MW. This level of reduction requires its own investment commitments, but compared to the generation investment that would thereby be avoided, that conservation investment appears to be cost-effective.

In the aggregate these investments will necessarily impact the cost of electricity to the City's ratepayers. As noted earlier, rate increases are highly likely throughout the country as power utilities come to grips with environmental requirements, with new expectations for distribution capabilities, and with the consequences of deferred investment. City Light's rates today compare favorably with those of other cities, and over the past eight years they have risen less than other utility rates in the City (Figure 10). However, they can vary unpredictably — reflecting budget decisions made in any given year based on projected water flow and expenses. This erratic rate behavior is likely to be of greater concern to customers than the absolute rate level. Consistent with the probabilistic resilience standards established for financial planning, it would be sensible to establish a probabilistic forecast of long-term revenue requirements and to set a smooth rate path that will support those requirements, perhaps falling short in some years but overshooting in others, so that over time cash flow is stable and rates are predictable.

Delivery capabilities

The two charts in Figure 11 indicate recent trends in City Light's delivery reliability, represented by two standard industry measures — the duration of power interruptions (SAIDI) and the frequency of power interruptions (SAIFI). (As these measures are intended to reflect basic day-to-day system performance, they do not account for major weather events like the December 2006 storms.) Data from 2005 and 2006 indicate deterioration on both measures. Recent data are a basis for some concern regarding the condition of City Light's transmission and distribution network.

Figure 12 displays City Light's history of capital expenditures over the past 35 years. Except for spikes in 1994 and 2000, and a sustained dip in the late 1980's, the amount invested during this period (in constant dollars) has remained in a rough range of \$90 to 120 million. Using depreciation as a rough estimate of useful asset life, with current depreciation at roughly \$60 to 70 million per year, this amount provides only a modest margin

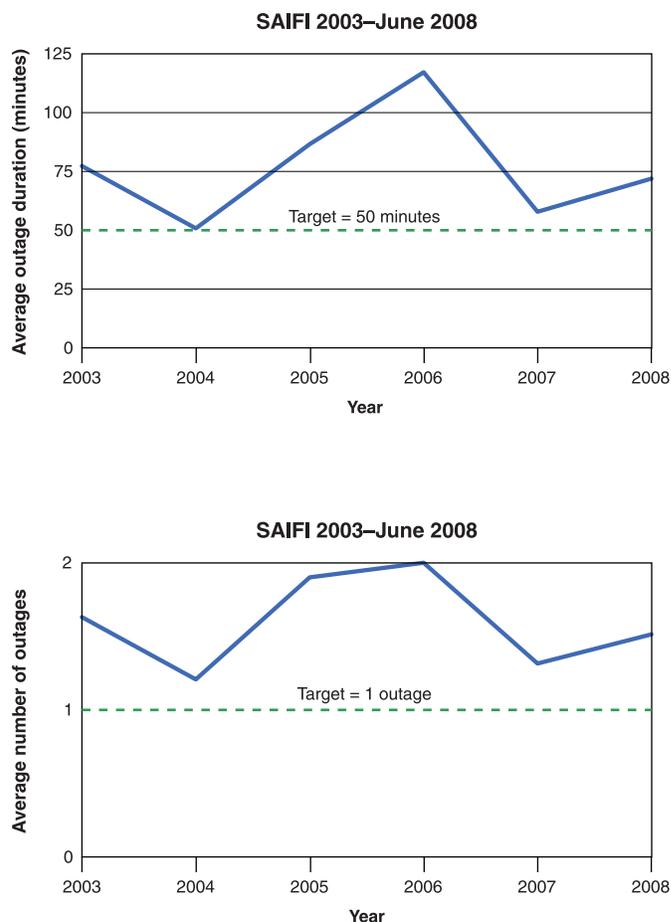


Figure 11: SCL System Reliability
Rolling 12-Month Average

over basic asset replacement. In light of the continuing growth in the City that these investments have had to support, it is likely that over time the basic energy delivery infrastructure is not being fully renewed. As discussed earlier, City Light is not unique in this respect; most U.S. utilities find themselves at the end of a similar period of underinvestment. However, it does signal the need for a more aggressive capital program in the future — not only to serve the emerging needs discussed earlier, but also to maintain the underlying quality of the infrastructure and to assure high levels of reliability.

A recent study performed by an outside consultant observed that City Light's current level of maintenance spending on reliability (as opposed to capital spending) was approximately \$7 million annually. The study concluded that continued spending at that level would likely lead to a long-term deterioration in reliability. This study calculated that sustained spending levels of \$25 to \$30 million would be required to return reliability performance to the levels experienced before 2000.

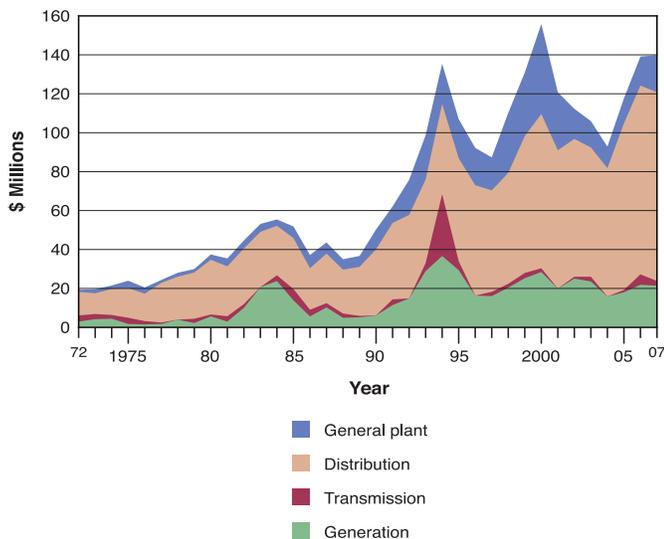


Figure 12: SCL Capital Expenditures 1972-2007

In the aftermath of a severe snow and ice storm in December 2006, City Light instituted new storm response and system resiliency procedures. We also recognized the urgency of assessing comprehensively the utility’s distribution system and developing a long-term plan for its preservation and enhancement.

This plan for preservation and enhancement, plus introduction of the devices and information systems needed for future grid complexity and for growing customer information needs, will almost certainly require distribution investments in excess of recent historical levels.

Institutional skills and culture

City Light has a strong culture of commitment to customer service and to public service. We also have a strong sense of tradition and respect for the methods and habits that have developed in the utility over time. This culture provides a deep ethic of professionalism. At the same time, it contributes to a climate of institutional inertia. City Light employees have seen a succession of administrative teams over in the recent past. The sense that “This too will pass” inhibits efforts to change direction or to reform work processes. Yet employees themselves express a need for such changes. Employees have stated concerns about the chronic “fire drill” culture of the utility. They believe that problems get addressed through “heroic” ad hoc efforts rather than through established, well-designed processes and that many problems simply slip through the cracks.

City Light’s culture needs to evolve to be more flexible and change-oriented. Such an evolution will require thorough and consistent communication, transparent decision-making, greater delegation of leadership

responsibilities to supervisors at all levels, ongoing processes to engage employees in solving problems, and increased accountability for results.

These needs underscore the recommendations of the Advisory Committee that City Light bend its efforts toward creating a “high-performance organization” that sets clear goals, empowers employees effectively, responds flexibly and quickly when conditions warrant, and provides a consistent framework of information support and performance accountability. None of City Light’s formidable challenges can be met unless City Light functions as a strong team. Building that teamwork is one of City Light’s highest strategic imperatives.

That teamwork will be difficult to build, however, with only a partial team. Employee surveys indicate a strong internal sense that City Light is understaffed. That perception appears to be well founded. As Figure 13 indicates, staffing levels have not kept pace with the growth in customer levels. To be sure, it is any organization’s responsibility to become more efficient year by year, and a shrinking employee-customer ratio might be welcome in many circumstances, but not to the degree experienced at City Light. On the contrary, the stress on current employees imposed by the growing workload makes it difficult to conceive and implement the process changes and coordinated technology enhancements that generate sustainable efficiency gains. Without staffing relief, the utility will find it extremely difficult to break out of its existing “fire drill” cycle.

The urgency of this staffing issue is compounded by the age distribution of City Light’s workforce. Mirroring the broader industry problem discussed earlier, a large portion of our workforce is within close range of retirement (Figure 14).

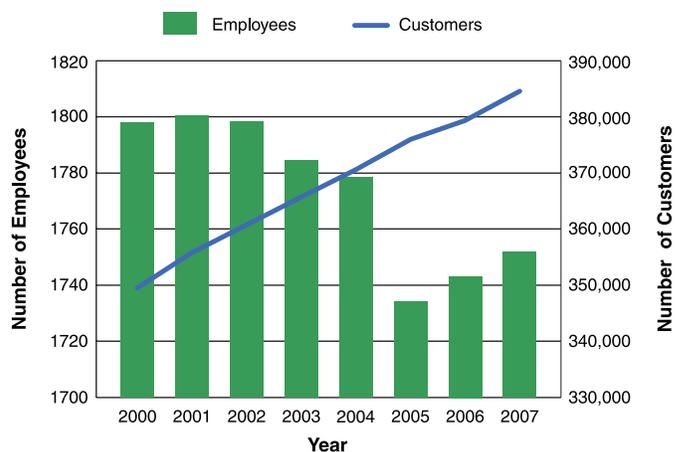


Figure 13: SCL Staffing Trend Compared to Customer Growth

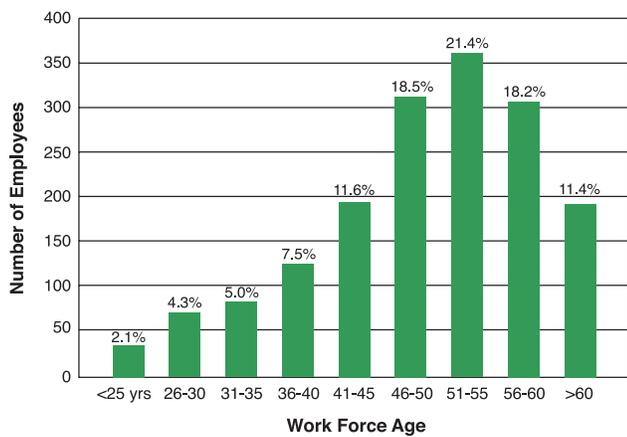


Figure 14: SCL's Employee Age Profile

Retaining these workers is vital, but a highly stressed work environment only encourages them to leave.

Because City Light needs to retain our experienced workers, because we need to attract both experienced talent and strong entry-level individuals, and because we need to accomplish both of these tasks in a labor market that is simultaneously being tapped by every other utility in the country, we will need a multi-pronged human resource program. That program will need to combine recruitment, competitive compensation, apprenticeships and job rotations, benefits and allowances, and career opportunities in fair, flexible, and creative ways.

The governance bodies that oversee City Light should consider this a strategic necessity and should work with City Light to fashion ways of accommodating it within the framework of City oversight.

City Light will need to support its team with the right tools and preparation. Effective asset management that allows for well-targeted programs of anticipatory maintenance and replacement, improved levels of customer service, design and implementation of “smart-grid” capabilities, and sophisticated power supply management all require high skill levels. We will need to invest in substantial training, and we need a fair chance of keeping the people we train rather than seeing them depart promptly for higher-paying employment.

City Light also needs effective information tools. Over the course of time, and over the course of myriad ad hoc decisions aimed at meeting immediate needs in the absence of a comprehensive IT strategy, we have developed 400 separate information systems — for an organization of 1600 employees! These systems need to be streamlined into an integrated information framework. Within that framework we need specialized systems capabilities designed for the specific kinds of issues the utility needs to manage. In the IT area as in the human resource area, an appropriate balance must be struck between the benefits of integrated operation with Seattle’s municipal framework and the need for specialized capabilities.



Strategic Landscape

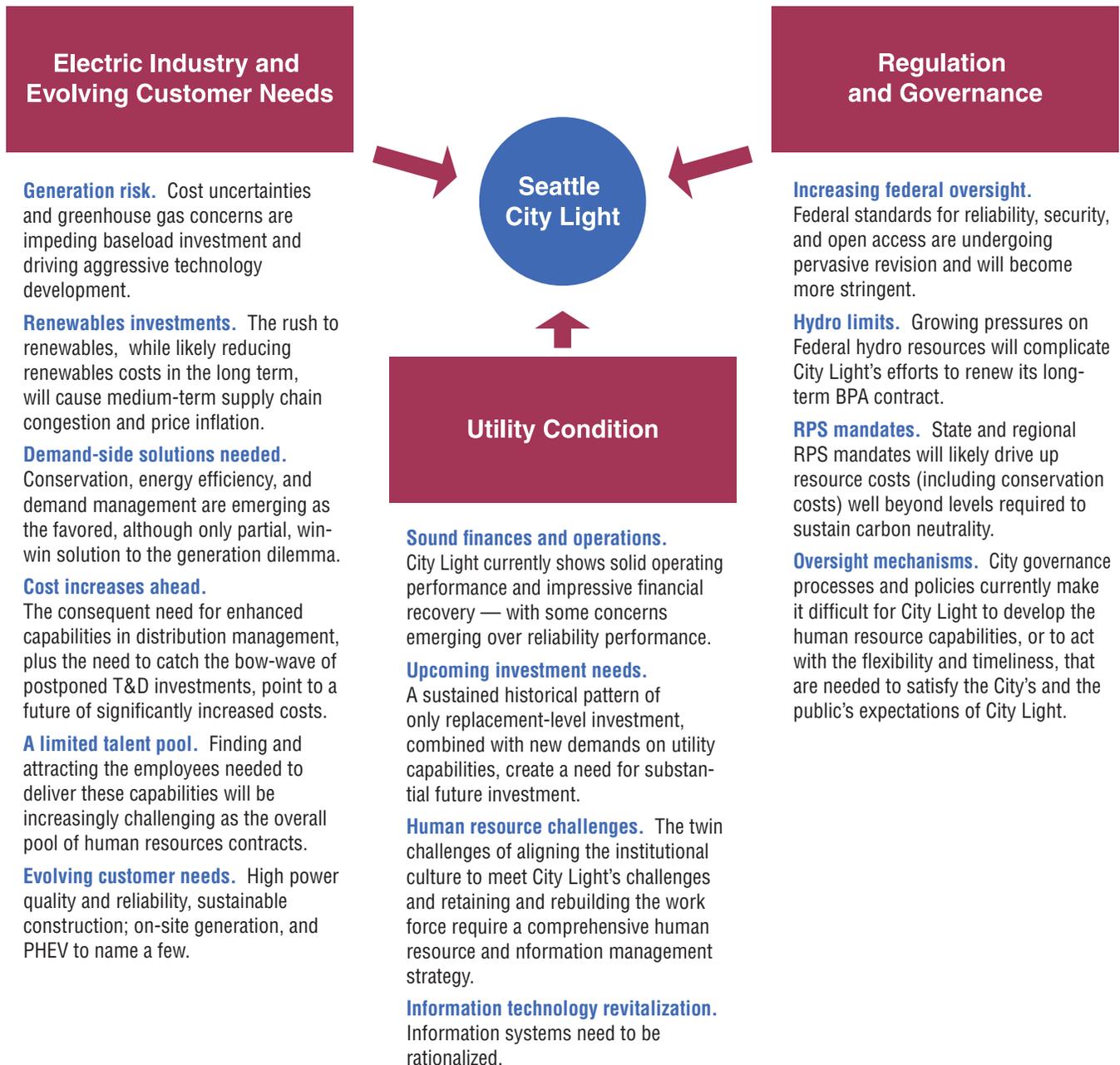
A Summary View

The intersection of these three sets of circumstances — industry dynamics, regulatory and governance mandates, and institutional capabilities — defines the challenges and opportunities that City Light’s strategic plan must address

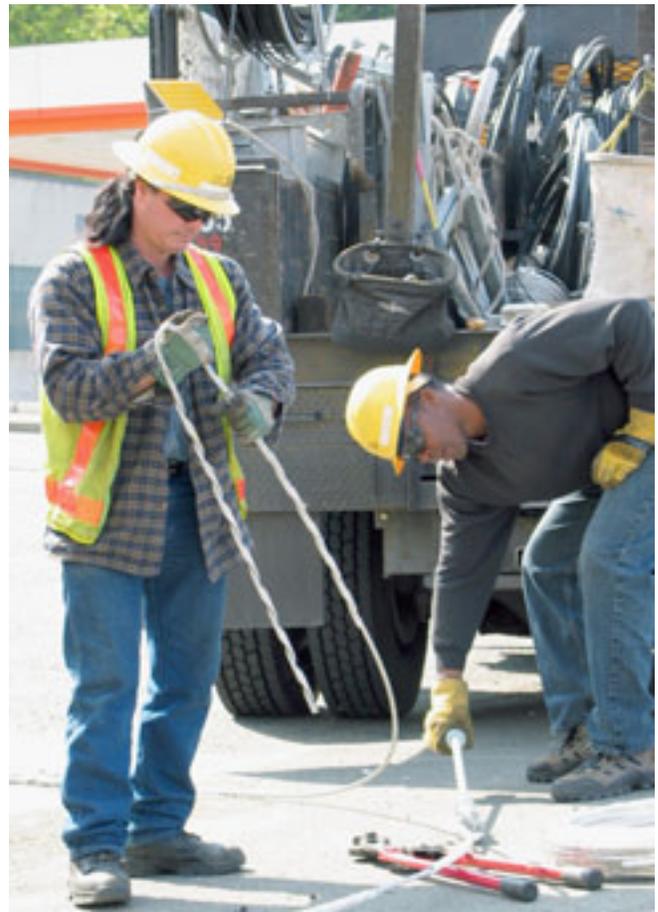
These circumstances present City Light with several clear challenges:

- Service to the customer and the community is no longer simply a matter of delivering inexpensive power efficiently. Increasingly, the public expects us to be an active partner in providing environmental solutions — through careful resource planning, through aggressive conservation measures, through sophisticated real-time exchanges of information, and through integration of new power generation and consumption technologies into the grid.

Seattle City Light’s Strategic Landscape



- We are unavoidably exposed to a wholesale power market that is increasingly stressed. The overall upward price movement in that market, and the volatility of those prices, make skilled risk management and resource planning essential for the protection of our customers.
- Our options are increasingly defined and constrained by federal and state regulation. Our strategic planning and our day-to-day processes need to reflect this reality, both in helping to shape evolving policies and in complying fully with those that are adopted.
- Like most utilities, we face immediate needs for increased investment and for skilled personnel. Acquiring the capital and human resources required for success, in competition with investor-owned enterprises that are facing challenges similar to ours, will require focused institutional commitment backed by strong City support.
- We can meet none of our challenges satisfactorily without a superior organization. We need the right people with the right tools and training, supported by appropriate information systems, empowered to make decisions within a common framework of understood values, objectives, and accountability. We need the City’s support in attracting and retaining the best people, and in deploying those people flexibly to meet our challenges and serve our customers.



In the next section we set forth at a strategic level the vision, priorities, objectives, and initiatives that we believe will best address these multiple challenges. This strategy statement will be continually examined and updated to ensure that our efforts keep pace with our changing business environment. It is intended to encompass a

five-year-forward span of time. We expect to update this strategic statement every two years as a precursor to the biennial budget process.



Supporting this strategic plan are other, more specific plans that have time frames dictated by their own specific issues and patterns of investment. Our information technology plan, for example, spans five years. Our capital investment plan extends out ten years. Our Integrated Resource Plan extends out twenty years, and in turn relies on climate projections running 50 years into the future. We do not believe that it’s advisable to force-fit each of these planning efforts into a common time-span. However, we do intend that this strategic plan, conceived for a five-year term, should draw on those other plans, provide the unifying framework for all of them, and establish the priorities among them.

Seattle Light's Strategic Plan

A Summary view

Vision: Set the standard and deliver the best customer service experience of any utility in the nation

Priorities	Objectives	Initiatives
Environmental stewardship	<ul style="list-style-type: none"> • Environmentally responsible in operations • Natural resource protection • Community leadership 	<ul style="list-style-type: none"> • Compliance program • PCB program • Recycling • Pollution prevention • Environmental leadership • Salmon protection • Enhanced natural resource protection
Improved energy delivery infrastructure	<ul style="list-style-type: none"> • Reliability and resilience • Superior customer service • Anticipation of evolving customer needs • Anticipation of evolving economic development 	<ul style="list-style-type: none"> • Energy delivery Infrastructure investment plan • Smart-grid planning • Asset management program • Business process improvement • Security and emergency preparedness
Balanced resource portfolio	<ul style="list-style-type: none"> • Optimal power portfolio • Portfolio management capabilities 	<ul style="list-style-type: none"> • Resource acquisition program • Power management • Renewable energy credit management • Transmission strategy • Bonneville Power agreement • Conservation resources program • Boundary re-licensing
Financial strength	<ul style="list-style-type: none"> • Capital access • Rate stability • Enterprise risk management 	<ul style="list-style-type: none"> • Enhancement of rate-setting guidelines • Programmatic budgeting • Strategic capital planning • Enterprise risk management (ERM) process
High-performance organization	<ul style="list-style-type: none"> • Safe work place • Business culture • Internal alignment • Competitive positioning • People, skills, tools 	<ul style="list-style-type: none"> • Recruitment and hiring strategy • Retention, development, and succession strategy • Compensation calibration • Performance management • Implement IT strategic plan

Vision: Where we aspire to be

Priorities: What foundational conditions are needed

Objectives: The specific goals we are pursuing to assure those conditions

Initiatives: The key action plans necessary to achieve those goals

City Light's strategic plan aims to achieve the mission that has been given us by the City: to be a publicly owned utility dedicated to exceeding our customers' expectations in producing and delivering environmentally responsible, safe, low cost, and reliable power. That mission commits us to customer service, employee performance and growth, operational excellence, and financial strength. In light of the strategic landscape described in the previous section, the plan identifies a long-term vision and four critical strategic priorities that must be met in order to accomplish that mission. Within each of those priorities City Light has established several specific objectives by which we will measure our success, and we have identified a series of initiatives designed to achieve those objectives.

Seattle City Light's **vision** is to:

Set the standard and deliver the best customer service experience of any utility in the nation.

We regard this strategic vision as consisting of four fundamental qualities...

- **Reliability** — Ensuring that our customers have power when they need it at a price they expect. This commitment requires a strong portfolio of power resources with adequate reserve capacity, a reliable and resilient transmission and distribution network, and skilled management of the risks that affect today's power markets and production and delivery systems.
- **Environmental sensitivity** — Performing everything we do in a way that reflects and reinforces our community's commitment to environmental protection.
- **Superior service capabilities** — Offering services that respond to evolving customer expectations in conservation, distributed generation, tailored power consumption, and adoption of new technologies.
- **Responsive and efficient customer service** — Interacting with all our customers in ways that meet the highest industry standards of consistency, courtesy, competence, and promptness.



City Light's Strategic Priorities

Our strategic priorities follow from this **vision**...

- **Environmental stewardship:** Protect and enhance the environment through our choices in power supply, our conservation efforts, our daily operations, and our environmental programs.
- **Improved energy delivery infrastructure:** Strengthen and improve our energy delivery infrastructure so that it serves as a reliable platform for the increasingly complex customer interactions that will be expected of us, and so that it enables fully the City's economic and social development.
- **Balanced resource portfolio:** Develop a cost-efficient portfolio of power resources that fills the needs of our customers with maximum efficiency while meeting all public-policy requirements.
- **Financial strength:** Ensure that the utility is financially resilient to protect our customers against the inevitable risks which arise from our hydro dependence and from our many links to the broader power market.
- **High performance organization:** Build on City Light's existing strengths in ways that transform the utility into a high-performance organization - - acting as an effective, well-supported team delivering superior customer service.

1) Strategic priority: Environmental stewardship

City Light's commitment to environmental stewardship encompasses three **objectives**:

- **Conduct our operations in a way that meets our environmental responsibilities,** applicable environmental regulations and policies, as well as continually improving our resource efficiency and continually reducing waste and pollution.
- **Protect natural resources.** We will manage our business activities to avoid, minimize, or mitigate our impacts on the ecosystems we affect, and to provide resource enhancements when opportunities arise.
- **Be an environmental leader.** We will continue to meet our goal of being a utility which produces zero "net" greenhouse gases. We will expand our extensive efforts to promote energy conservation, and will work with the community to promote environmental awareness and responsibility.

To meet these objectives, City Light will pursue the following **initiatives**:

- **Compliance program.** We will continue to implement and update compliance programs such as hazardous waste management and emergency response that include worker training, written procedures, and clear oversight.
- **PCB program.** We will pursue a targeted program for removal of transformers containing the toxic contaminant polychlorinated biphenyl (PCB's).
- **Recycling.** We will expand our recycling and reuse programs to include new materials such as plastics and filters.
- **Pollution reduction.** We will analyze our use of chemicals and replace toxic materials with safer substitutes, improving worker safety and reducing hazardous waste generation.
- **Environmental leadership.** We will meet our goal to be greenhouse gas neutral and look for innovative ways to use electricity to reduce emissions of green house gases such as plug-in hybrids and port electrification. We will track emerging environmental concerns and develop effective programs to address them.
- **Salmon protection.** We will work in partnership with resource agencies and tribes toward successful implementation of the Skagit Chinook and Bull Trout Recovery Plan to restore Chinook to long term sustainable levels. We will participate in the development of a Puget Sound Steelhead Recover Plan. We will continue our carefully planned flows to assure high levels of salmon and steelhead survival.
- **Enhanced natural resource protection.** Building on our existing programs to protect fish and wildlife that are affected by our operations; we will preserve and protect at least 1000 acres of additional critical habitat for fish and wildlife over the next ten years.

2) Strategic priority: Improved energy delivery infrastructure

City Light's priority of enhancing its energy delivery capabilities involves four primary **objectives**:

- **Provide high levels of system reliability and resilience.** We need to protect our physical utility system as much as possible from man-made and natural risk. We also need to provide sufficient system flexibility to absorb and compensate for adverse events when they occur. This kind of resilience can only be achieved through targeted asset investment and adequate, long-term preventive maintenance.
- **Position ourselves to serve evolving customer needs** for more information, for two-way access to the grid, for access to renewable generation, and for support in conservation efforts. We will develop an information network that alerts us instantly to system problems, enables remote and immediate response to those problems, provides comprehensive real-time information



on system use, and permits comprehensive real-time communication with our customers.

- **Provide a consistent, responsive, and superior customer service experience.** In all areas of customer interaction, we will anticipate customer needs, define customer service standards, align services and processes to meet those standards, and continually monitor and improve our performance.
- **Anticipate City development patterns and corresponding energy delivery infrastructure requirements.** We need to ensure that we are supporting economic development through timely investment and proactive environmental planning.

We have launched the following **initiatives** to move us toward these objectives:

- **Energy delivery infrastructure investment plan.** Beyond the investments needed to ensure system reliability and resilience, we need to anticipate the needs of the City as development continues and density patterns and service needs evolve. For this reason we will work with communities and City agencies to develop a forward-looking ten-year infrastructure development program to address the energy delivery system design that will best meet customers' needs.
- **Smart-grid planning.** We will develop a plan for "smart-grid" management — the set of tools and processes offered by new technologies such as Advanced Metering Infrastructure (AMI), Supervisory Control and Data Acquisition (SCADA), and Distributed Generation. This plan will address how to manage our flow of power, to reconfigure the distribution paths flexibly in response to need, and to support our customers in managing their interactions with the grid both as users and as potential micro-suppliers of power. We will be exploring the experience of other utilities in implementing those technologies and deciding on a prudent long-term investment course for City Light.

- **Asset management program.** We will complete an inventory of City Light assets and create analytic tools to manage our assets for the greatest benefit of our customers at the lowest life-cycle cost.
- **Business process improvement.** We will make changes to our processes in order to reduce the time taken to install power in customer premises from almost 15 months in 2006 to less than two months. We will build on success in this area with similar improvement initiatives in other customer-service activities.
- **Security and emergency preparedness.** We will evaluate our security arrangements on a periodic basis. We will prepare a work plan based on each evaluation in order to close identified gaps in physical and computer security, including staffing, processes, procedures, training and technology.

3) Strategic priority: Balanced resource portfolio

City Light's plans to assure an optimal supply of power encompass two primary **objectives**:

- **Build a portfolio of power resources** that provides the least-cost mix of long-term supply adequacy, satisfaction of City and State renewables mandates, and demand-side management measures.
- **Build or acquire the capabilities needed to maximize the benefits of the portfolio of resources, consistent with predefined risk policies, procedures, and limits,** by employing industry-competitive tools and resources to obtain the highest possible value for City Light's customers.

To enable City Light to accomplish these objectives, management has identified the following six strategic **initiatives**:

- **Resource acquisitions.** We will develop and pursue a detailed plan to acquire the optimal resource mix identified in City Light's Integrated Resource Plan. In addition to accelerating our efforts in energy conservation, resource options may include wind, landfill gas, hydro facilities improvements, and seasonal exchanges.
- **Power management.** We will continue to develop and improve our power management capabilities to ensure that our power resources are being optimally managed in light of power market opportunities, risks, and new resource acquisitions. We will obtain and employ appropriate decision tools, business systems, governance protocols, professional service contracts, and staffing levels as required.
- **Renewable Energy Credits management.** We will develop capabilities to engage appropriately in the market for Renewable Energy Credits (REC's) to help manage our requirements under I-937.
- **Transmission development.** We will work with regional planning organizations to develop a comprehensive regional transmission plan. This plan may involve

changes to our transmission system, as well as capital investments in the broader regional transmission system.

- **Long-term power sales agreement with BPA.** We will continue to pursue a BPA Power Supply strategy that maximizes City Light's rights to Tier 1 cost-based Federal Columbia River Power System beginning in 2011 and Tier 2 BPA market-rate power supply options that might be available to us under the new long term agreement.
- **Conservation resources program.** We will implement our 5-year conservation plan beginning in 2008, aiming to achieve a reduction in average required generation capacity of 68 MW by the end of 2012.
- **Boundary relicensing.** We will continue to pursue the relicensing process for our Boundary facility, working to secure a long-term FERC license by 2011 that balances our need for power with the strong environmental stewardship of this resource expected by our customers.

4) Strategic priority: Financial strength

City Light plans to assure financial strength by accomplishing three **objectives**:

- **Ensure access to capital by assuring capital markets of our ability to service debt.** By achieving this objective, we will have the capacity to borrow funds in the event of emergencies and tight capital markets, and also reduce the cost of debt.
- **Attain rates that are stable and affordable for the long term.** By meeting this objective, we will provide a low but also predictable rate structure to our customers. By utilizing long term capital planning, prudent budgeting, better assessments of water flow, and sound risk management, we will avoid the rates ups and downs experienced over the past five years.
- **Provide comprehensive risk management.** Meeting this objective will ensure that all high-potential risks, including those other than energy risks are managed systematically for the utility.



We have identified several strategic **initiatives** as essential to attaining these objectives:

- **Maintenance of sound financial policies for rate-setting.** We will continue to recommend financial policies for rate-setting that allow us to set predictable rates and to ensure the long term financial health of the utility. These policies will include achieving a debt-to-capitalization ratio of 60% or below by the end of 2010, maintaining adequate cash reserves, and ensuring sufficient debt coverage ratios to achieve favorable credit ratings.
- **Development of budgets by programs that produce measurable results.** The City currently breaks down City Light's budget by organizational unit and cost line item. We will develop another breakdown of the budget along programmatic lines and in this way provide management with insight into the measurable results that are achieved for the costs of various programs. Programmatic budgeting will be closely linked to the metrics established under a performance management system, another initiative under the High Performance Team Priority.
- **Strategic capital planning.** In order to plan strategically for capital spending, and thereby to establish stable, predictable rates, we will take a ten-year view of capital requirements. This time span will reflect the lead times required in our industry and will better inform our biannual budget submissions required by the City. Capital budgets will be prioritized using a variety of clear criteria linked to our strategy.
- **Enterprise risk management.** We will expand the role of the Risk Oversight division and the functions of the Risk Oversight Council beyond its current role of reviewing energy risk only. We will analyze which other risks, such as construction, regulatory, and legal risks, are of sufficient impact and probability that they warrant systematic tracking and decision-making. These will be incorporated into a comprehensive risk management process for the utility.



5) Strategic **priority**: A high-performance organization

In order for City Light to become a high-performance organization, several strategic **objectives** must be met:

- **Nourish a strong safety environment** that promotes high levels of safety awareness and rigorous insistence on safe processes.
- **Create a results-driven business culture** that encourages responsiveness to customers, timeliness of decisions, agility in meeting challenges, openness to new ideas and methods, and a willingness to accept individual accountability.
- **Position City Light as a competitive employer** that offers pay and benefits comparable to those offered at other public and private utilities.
- **Marshal the people, skills, and tools needed to provide consistent and superior performance.**
- **Ensure that our human resource management and our everyday dealings with each other reflect our commitment to race and social justice.**

The following strategic **initiatives** to accomplish these objectives are either under way or are planned for 2008:

- **Recruitment and hiring strategy.** We will develop a specific strategy for identifying, attracting, and compensating the personnel needed to sustain and build the utility in future years.
- **Retention, development, and succession strategy.** We will develop an employee development program that will develop internal skills and leadership, leading to advancement of employees to new positions and new challenges, especially in key critical roles. We will substantially expand our capabilities for providing career development and training.
- **Compensation calibration.** We will review compensation levels among comparable employers and will develop a compensation plan that makes City Light competitive.
- **Performance management system.** We will institute performance metrics and reports to enable us to assess and continually improve our business performance. We will also institute a "business intelligence" system to facilitate access to this information
- **Implement IT strategic plan.** We will acquire and develop information technology tools to support City Light's strategic objectives, providing systems and technology that are modern, real-time, mobile, integrated, and secure.
- **Race and Social Justice Program.** City Light models and is committed to the mission and goals of the City of Seattle Race and Social Justice Initiative by creating a culture in which race does not determine success in our organization and does not determine the delivery of services to our customers.

Strategic Plan

Financial Outlook

The SCL strategic plan calls for a number of initiatives to be pursued. This section incorporates those initiatives into a financial forecast covering a period 2009 through 2018.

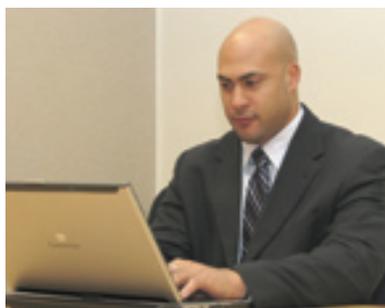


All strategic initiatives have a financial impact; some larger than others. Also, major cost drivers come as a part of our on-going utility operations.

One of the strategic initiatives that will have a relatively high range of potential costs is re-licensing of the Boundary Hydro-Electric generation facility. Continuing to receive the benefits of this critical source of energy is central to our future strategy and we must re-license the facility by 2011. Another major source of electricity we must retain is the supply provided under the long-term contract with Bonneville Power Administration (BPA). The contract with BPA has been recently re-negotiated and, has been signed in December 2008. It will take effect in 2011 and will be in place for 17 years.

Major projects that are part of continuing utility operations include the moving of poles and wires, etc when roads are widened or other major changes take place in transportation corridors. There are a number of these projects, but one major project in our future is the ultimate solution to the Alaskan Way viaduct issue.

The costs of these projects remain uncertain. In the financial analysis presented below, we examine their impact on future requirements for capital and on the rates to our customers.



The first two years of the forecast of the financial impacts of implementing this strategic plan were based on the initial SCL 2009-2010 budget submittal and associated rate and capital improvement

project forecast. Expenses for strategic initiatives, not already in the base are added in the years they occur.

The power resource portfolio used is the accelerated conservation plan recently approved combined with the

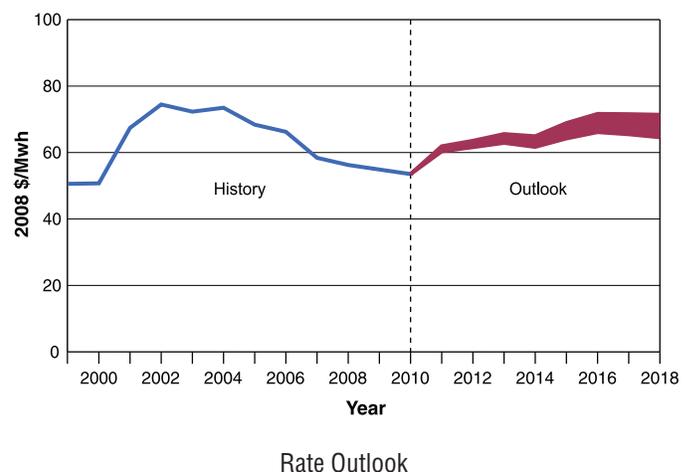
renewable resource Portfolio 8 from the 2006 Integrated Resource Plan (IRP) as the 2008 IRP was not finished at the time of the analyses. The preferred portfolio in the 2008 IRP is not greatly different.

One priority from the strategic plan that directly bears on the production of a financial outlook is Financial Strength with its accompanying objectives of Access to Capital, Rate Predictability and Enterprise Risk Management. These objectives find expression in the financial analysis through City Council set policies. That is, the analysis is run with the requirements that there is a 95% probability that operations will provide cash that can be used in the capital spending program and that debt service coverage is at least 2.0. In addition to these requirements, the target debt to capital ratio is 60%.

The Enterprise Risk Management objective as it relates to a broad spectrum of risks including financial risk. While SCL cannot eliminate all financial risk it faces, it seeks ways to mitigate these risks in its long-range financial planning. One of the most important of risk mitigation tools is the maintenance of adequate levels of financial reserves, which allows SCL to weather periods of adverse financial circumstances. The financial outlook reported here includes a contingency reserve of \$25 million and a cash balance reserve of \$30 million.

In addition to the above, the following assumptions are included in the financial analysis:

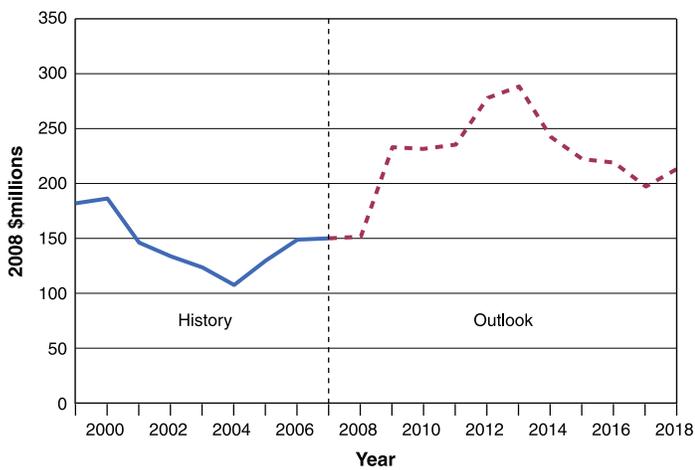
- Average (normal water year) hydro conditions.
- No changes were made to the above financial policies. 2009-10 in the analysis are based on the SCL July 2008 budget submittal.
- Because so little is known about the ultimate climate change legislation and resulting policies, no attempt was made to address the potential impacts.



High and low cases were run to test the range of possible financial impacts. The key differences in the high case are higher values for BPA rates, Boundary Hydro Project relicensing, renewable resources and Information Technology projects.

The electric rate outlook that results from the analysis is provided above in constant 2008\$ per MWh.

Historically SCL actual capital expenditures are typically less than authorized for a number of reasons. The capital outlook in the current financial analysis shows the planned request level and the likely range of actual expenditures to represent how this historical experience may play out in the future.



Capital Outlook

Appendix A — Strategic Initiative Descriptions

Introduction

For more than a century the City of Seattle has enjoyed one of the least expensive, most environmentally benign, and most reliable electric utility systems in the country. The supply shortage and price shocks of 2000 and 2001, however, made clear that the City is vulnerable to the rapid changes occurring today in the nation's power markets. Meanwhile, the City's strong commitments with respect to climate change and environmental sustainability, and its aspiration to support an increasingly diverse, technologically sophisticated economic base, involve notably higher expectations for power sourcing and delivery. As risks and expectations rise, the City needs a clear understanding of its electric power challenges and a purposeful approach toward addressing them.

In light of this need, Seattle City Light has undertaken a broad review of its current position, its direction, and its resources. That review has led us to identify several long-term priorities and a strategic agenda that we believe should frame our efforts and our expenditures over the coming years. The strategic plan highlights initiatives that are key to the strategy. This appendix describes each of those initiatives in greater detail.

Environmental Stewardship Initiatives

Environmental Compliance Program

Initiative Overview:

We will continue to implement and update compliance programs such as hazardous waste management and emergency response that include worker training, written procedures, and clear oversight.

Definition of Success:

- Comply with all applicable environmental laws.
- Enhance environmental stewardship.
- Train workers to understand their environmental impact.

Metrics of Success:

- Annual Hazardous Materials Index > 3.
- # of controllable releases to environment.
- % of workers trained.

PCB Reduction Program

Initiative Overview:

We will pursue a targeted program for the removal of transformers containing polychlorinated biphenyls (PCBs).

Definition of Success:

- Eliminate liability and environmental damage caused by potential PCB spills.

Metrics of Success:

- Hazardous Materials Index >3.
- # of transformers removed under program.

Recycling

Initiative Overview:

We will expand our recycling and reuse programs to include new materials such as plastics and filters and other materials.

Definition of Success:

- Reduce solid waste stream through recycling and make more efficient use of materials.

Metrics of Success:

- Hazardous Materials Index > 3.
- Lower cost of waste disposal.
- Increase in amount and type of materials recycled.

Pollution Prevention

Initiative Overview:

We will analyze our use of chemicals and replace toxic materials with safer substitutes, improving worker safety and reducing hazardous waste generation.

Definition of Success:

- Reduce hazardous materials use and hazardous waste generation.

Metrics of Success:

- Hazardous Materials Index > 3.
- Reduce hazardous waste generation.
- Reduce inventory of products with hazardous chemicals.

Environmental Leadership

Initiative Overview:

We will meet our goal to be greenhouse gas (GHG) neutral and look for innovative ways to use electricity to reduce emissions of green house gases such as plug-in hybrid vehicles and port electrification. We will track emerging environmental concerns and develop effective programs to address them.

Definition of Success:

- SCL will continue to be GHG neutral and help the region address transportation emissions by finding effective ways for using electrification of transportation to reduce emissions.

Metrics of Success:

- Percentage of SCL's annual greenhouse gas emissions mitigated. Target = 100%.

Salmon Protection

Initiative Overview:

This initiative seeks to improve the abundance of wild Chinook salmon, pink salmon, chum salmon, bull trout, and steelhead in the Skagit, Tolt and Cedar rivers, and to minimize the impacts of SCL hydroelectric project operations on these species. It also includes recovery of species listed under the Endangered Species Act (ESA), i.e. wild Chinook salmon, bull trout, and steelhead.

Definition of Success:

- The abundance of wild Chinook salmon, pink salmon, chum salmon, bull trout, and steelhead increases in the Skagit, Tolt and Cedar rivers.
- The Puget Sound Chinook and Bull Trout recovery plans are successfully implemented on the Skagit, Tolt, and Cedar rivers to restore ESA-listed fish to long-term sustainable levels.
- SCL participates in the development of a Puget Sound Steelhead Recovery Plan.

Metrics of Success:

- Percentage of egg to migrant survival for Chinook salmon as indicator of how well SCL runs its hydro projects. Minimum target value = 12%
- Comply with Skagit, Tolt and Cedar hydro project flow requirements included in the FERC licenses and fisheries settlement agreements for these projects. Also compliance with Habitat Conservation Plan (HCP) flow requirements on the Cedar.
- Stable or increasing populations of salmon, bull trout, and steelhead downstream of the Skagit Hydroelectric Project relative to other Skagit River sub-basins and Puget Sound reference watersheds.
- Partnership agreements with at least four agencies, tribes, and non-profit conservation groups to protect and improve salmon, bull trout, and steelhead populations and their habitats in the Skagit, Tolt, and Cedar River watersheds.
- SCL representation on recovery teams and watershed groups.

Enhanced Natural Resource Protection

Initiative Overview:

Building on our existing programs to protect fish and wildlife that are affected by our operations, we will preserve and protect at least 1000 acres of additional high quality habitat for fish and wildlife over the next ten years.

Definition of Success:

- Additional fish and wildlife habitats are acquired, protected, and restored under the Endangered Species Act early action lands program and Skagit Project license.

Metrics of Success:

- Purchase 1,000 acres of fish or wildlife habitat in 10 years.

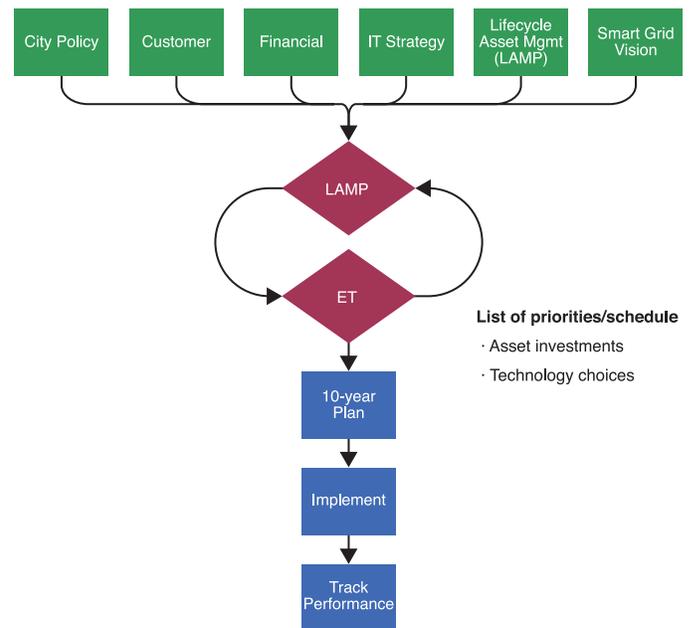
Improved Energy Delivery Infrastructure Initiatives

Energy Delivery Infrastructure

Investment Plan

Initiative Overview:

The Energy Delivery Infrastructure Investment Plan lays out an optimal long-term investment plan for SCL based on strategic long term system needs, considering customer needs, Smart Grid Vision, Asset Management and financial realities. The components of infrastructure proposed for investment throughout the Seattle City Light System will be cost-effective, customer focused, technologically compatible and environmentally sound. This initiative seeks to ensure that all departments within Seattle City Light work together and with communities and other City agencies to develop a strategically focused ten-year energy delivery infrastructure development program.



Elements of Infrastructure Investment Decision-Making Process

Definition of Success:

- Implement a vision driven, fact-based infrastructure investment management decision making process for utility critical assets that results in most the cost-effective, coordinated, long-term investment plan for the utility.
- Anticipate evolving customer needs.
- Work collaboratively within SCL and City agencies to meet current and future infrastructure needs.
- Improve system reliability and resilience.

Metrics of Success:

Decrease the System Average Interruption Duration Index (SAIDI)	2008 Actual = 88.4 minutes Goal = 50 minutes interruption per customer
Decrease the System Average Interruption Frequency Index (SAIFI)	2008 Actual = 1.5 events Goal = 1 event per customer
Implement consistent processes for Cost/Benefit analysis	June 2009
Implement Capital Investment Project prioritization tool for asset related expenditures	June 2010

Smart-Grid Planning and Coordination

Initiative Overview:

We will develop a plan for “smart-grid” management — the set of tools and processes offered by new technologies such as Advanced Metering Infrastructure (AMI), Supervisory Control and Data Acquisition (SCADA), and Distributed Generation. This plan will address how to manage our flow of power, to reconfigure the distribution paths flexibly in response to need, and to support our customers in managing their interactions with the grid both as users and as potential micro-suppliers of power. We will be exploring the experience of other utilities in implementing those technologies. Development of a Smart-Grid Vision for SCL will help shape our long-term investment plan. Smart-Grid investments will be implemented through the Infrastructure Investment Process. (See **Energy Delivery Infrastructure Investment Plan**).

Definition of Success:

- Move toward two-way energy and information communication technologies with all parts of the electric utility systems: generation, transmission, distribution, and consumer electrical systems with the goal to provide operational, financial and environmental benefits.

Metrics of Success:

- Coordinate closely all individual projects to avoid lost opportunities and technology incompatibilities, including such projects as Advanced Metering Infrastructure, Substation and Distribution Automation and Outage Management.

Asset Management Program

Initiative Overview:

“We manage our assets for the greatest benefit of our customers at the lowest lifecycle cost.”

The Lifecycle Asset Management Program (LAMP) is a five year implementation of asset management philosophy at Seattle City Light. This includes starting inventory,

condition assessment, maintenance planning (roughly 20%) on City Light’s current and future infrastructure and then support this work by developing and utilizing standard design and construction templates and standardized business processes along with auditing to reinforce we are doing what we should be doing. Decision making is based on managing assets for the lowest lifecycle cost balanced by Seattle City Light’s vision and mission statements including reliable electrical service and environmental stewardship. Asset management data and analysis will help shape our long-term investment plan and implementation strategies. (See **Energy Delivery Infrastructure Investment Plan**).

After the initial five year project implementation, the asset management philosophy will continue on at Seattle City Light and should be part of regular work processes and decision-making.

Definition of Success:

- A “tool” is used and updated to provide the Executive Team prioritized capital and major maintenance spending using achievable cost/benefit numbers and backed by data.
- A Work Management System is in place and is utilized by work planners, engineers, and crews to plan, issue, track and close-out work as well as to collect data about the assets.

Capital Costs:

- Apply revised planning criteria for growth-related additions.
- Institute compatible units and revised design standards.
- Employ contractors for lower skill, recurring work and peak load offsets.
- Implement work management systems to improve work scheduling and material usage.
- Implement risk-based Capital Improvement Plan (CIP) prioritization models, methods and decision tools.

Preventative Maintenance (PM) and Operations:

- Reduce PM-related labor & materials expense using condition-based methods.
- Reduce replacement power costs via improved outage management.
- Employ contractors for lower skill, recurring work and peak load offsets.
- Increase revenue from pole attachments, fewer metering inaccuracies.
- Implement risk-based CIP prioritization models, methods and decision tools.

Inventory Carrying Costs:

- Reduce Power Supply inventory – plant, site and stores.
- Reduce Stations inventory — plant, site and stores.
- Reduce Energy Delivery inventory — plant, site and stores.

Reliability “Costs”:

- Reduce reliability-based (SAIFI) & duration-based (SAIDI) interruptions from equipment failures/outages.
- Reduce power plant equipment failures via improved condition monitoring.
- Implement risk-based prioritization models to reduce reliability-based budget.

Metrics of Success:

- Reduce SAIDI/SAIFI below year end 2006 SAIDI/SAIFI.

Business Process Improvement

Initiative Overview:

SCL will systematically conduct Business Process Improvement/Process Redesign to support continued improvement in customer services and achieve operational excellence in a rapidly changing business environment. Current challenges to be addressed by this initiative include the implementation of major technology infrastructure projects, anticipated workforce changes, and a focus on continuously improving customer service. Incorporating process improvement and/or redesign will ensure that solutions to these challenges achieve maximum efficiency and quality, reduce costs and maximize customer satisfaction. Depending on business priorities and resources available to allocate to this effort, virtually every SCL business process could be analyzed for possible improvements over time.

- Major technology improvements are on the horizon for SCL within the next few years. The implementation of an Electric Utility Solutions Portfolio will encompass most of SCL's major software applications. During 2009/2010 the first software applications slated to be installed are Asset Management and Outage Management solutions. In 2010, we anticipate beginning implementation of an Advanced Metering Infrastructure (AMI), which will be the foundation for the SMART GRID. Eventually SCL will replace the Customer Information System (CIS), with a likely target date of 2011. To take full advantage of system capabilities and new business opportunities presented by implementing these applications, we will need to redesign and/or improve the associated business processes and work systems to account for the changing technology environment and ensure maximum utilization of these investments.
- Currently, 50% of the SCL workforce will be eligible to retire in 5 years (increasing to 70% within 10 years). We will need to address the potential for a significant loss of institutional memory and use the expected turnover as an opportunity to rethink our staffing needs. We expect to leverage our current staff group's knowledge and expertise by using cross functional groups for process improvement and redesign initiatives. By finding efficiencies through process improvement or redesign, we can reduce the need to backfill positions, decrease

FTE usage through attrition, and substantially reduce labor costs over time.

- With customer service as a focus area of the strategic vision, SCL has initiated the use of the JD Power Customer Satisfaction Survey to measure external customer satisfaction and establish benchmark data. One rated area of Customer Satisfaction measures significantly below desired levels. In addition, the utility is challenged to improve internal customer – supplier processes. Business process improvement/ redesign efforts can address both areas on an ongoing basis.

Definition of Success:

- This initiative will result in systematic implementation of improved or redesigned business processes that are customer focused and increase customer satisfaction (both internal and external), and achieve savings in time and money.

Metrics of Success:

Measures of Overall Process Improvement / Redesign Initiative:

- Systematic use of process improvement. Measure: Alignment of assigned projects with SCL business priorities.
- Internal customer satisfaction with Process Improvement services. Measure: Management assessment of service outcomes.
- Customer focus in process improvement/redesign projects. Measure: Assessment of how well process improvements meet customer requirements.

Measures for Specific Processes Improved or Redesigned:

- Improved service outcomes.
- Reduced operating costs, reduced staff hours and/or avoid need for new positions.
- Outcome measures suitable for use in SCL business metrics system.

Measures of Key Focus Areas:

- Infrastructure: New and/or improved work methods and processes incorporated into infrastructure project implementation.
- Workforce: Improved or redesigned work methods incorporate expert staff knowledge and maximize use of existing human resources. Service levels are maintained or improved despite retirements.
- Customer Focus: Customer and employee satisfaction ratings improved. Internal customer – supplier processes improved.

Security and Emergency Preparedness

Initiative Overview:

Prepare work plans based on each evaluation necessary to identify gaps in physical security and emergency preparedness that ensures continuity of operations. Assess critical infrastructure to identify vulnerabilities and

measures needed to ensure asset protection from criminal activities. Develop an annual review of emergency response and restoration plans to ensure readiness of SCL's Incident Management System and operational capabilities. Schedule training and conduct exercises to test effectiveness of emergency plans and procedures.

Definition of Success:

- Perform SCL business functions during emergency events.
- Secure and monitor critical infrastructures.
- Safeguard assets and resources to ensure reliability for electrical power delivery and restoration.
- Conduct customer forums that assist key customers in their preparations to emergencies.
- Coordinate with local first responders to ensure appropriate assistance during emergencies.
- Comply with National Electric Reliability Corporation (NERC) Critical Infrastructure Protection Cyber Security Standards.
- Coordinate with state and federal agencies to address infrastructure damages that would have national significant consequences and impact to the nation's economic structure.

Metrics of Success:

- Comply with NERC CIP Cyber Security Standards/ Requirement by July 2009 and July 2010.
- Upgrade four substations each year.
- Monitor all SCL facilities at the SCL Security Monitoring Center by 2010.
- Conduct emergency preparedness training and exercises quarterly.
- Test emergency plans annually
- Respond to Security Incident Reports within 24 hours.

Balanced Resource Portfolio Initiatives

Resource Acquisition Program for Energy, Capacity, Renewable Energy Credits and Transmission Strategy

Initiative Overview:

We will develop and pursue a detailed plan to acquire resources and institute cost-effective seasonal power exchanges as recommended in City Light's Integrated Resource Plan. Resource options may include landfill gas, geothermal, biomass, wind, hydro facilities improvements, conservation and seasonal exchanges. We will acquire transmission necessary to transmit power from the new resources to load.

Definition of Success:

- Mayor and Council approve purchase of or contract for new resources as recommended in City Light's Integrated Resources Plan.

- Prepare detailed action plans and assign staff and financial resources to compete for and acquire those resources.
- Engage fully with resource developers or other providers toward securing rights to such resources.

Metrics of Success:

- Power Supply Resources
 - Desired level of resource adequacy - 2009 – 6 aMW to 2027 - 281 aMW or about 16 aMW per year of new resources.
 - Procure renewable resources - determine availability, cost, technology prospects, and consistency with goals, policies and regulation including IRP, RPS and Greenhouse Gas Emissions under "SB6001".
- Renewable Energy Credits
 - Purchase Renewable Energy Credits (RECs), if appropriate, in lieu of new power supply resources. The IRP has identified the need for an additional 70 aMW of RECs in 2016 and 145 aMW in 2020 to comply with I-937.
- Transmission
 - Identify transmission needs, assess existing regional practices and potential impacts on cost and availability, and acquire transmission necessary to transmit power from new resources to load.
 - Assess potential to reconfigure current BPA transmission agreement to transmit power from new resources.

Renewable Energy Credit Management

(Included in Resource Acquisition Program above)

Transmission Strategy

(Included in Resource Acquisition Program above)

Power Management

Initiative Overview:

We will continue to develop and improve our power management capabilities to ensure that our power resources are being optimally managed in light of power market opportunities, risks, and new resource acquisitions. We will gain approval for the 5-year Self Build Plan which has identified needed improvements in Business Systems and staff augmentation in Power Management and in Finance.

Definition of Success:

- Success in this effort will be defined by the elimination of existing "gaps" between current business practices and industry best practices. Further, by establishing a culture of continuous improvement to measure and improve performance on a going-forward basis.
- Obtain and employ appropriate decision tools, business systems, governance protocols, professional service contracts, and staffing and skill levels as required during term of contract.

- Establish, monitor and manage performance metrics to improve organizational capabilities and capacity.

Metrics of Success:

Power management metric pending future decisions on SCL's risk management practices. Metrics might include:

- “Closing the Gaps”— Eliminate existing gaps in the current Gaps Analysis Matrix.
 - Risk controls
 - Risk analytics
 - Risk and position reporting
 - Credit management
 - Market knowledge and transaction analytics
 - Automated business systems
 - Power accounting and billing, and results reporting
- Settlement reconciliations — Measure the number of errors caught at the settlements stage. Set appropriate target improvements based on industry best practice, and then determine whether the group's error rates have been improved as a result of these efforts.
- Risk Management Improvements and Portfolio value — Describe qualitatively and quantitatively the improvements in portfolio risk management resulting during the implementation period. Quantify or estimate annually the net increase in portfolio value resulting from closing the gaps.

Long-Term Power Sales Agreement with BPA

Initiative Overview:

We will continue to pursue a BPA Power Supply strategy that maximizes City Light's rights to Tier 1 power supply beginning in 2011 and evaluate Tier 2 power supply options that might be available to us under the new long term agreement.

Definition of Success:

- Mayor and City Council approve new Bonneville contracts to replace the current contracts.

Metrics of Success:

- Realize the planned quantities and prices for Bonneville power as represented in current budget and planning documents.

Conservation Resources Program — 5-Year Action Plan

Initiative Overview:

We will implement our 5-year conservation plan beginning in 2008, aiming to achieve a reduction of 189 aMW cumulative savings, by the end of 2012.

Definition of Success:

We will have succeeded with this initiative if we meet our energy savings targets with the budget and staff allocated and have measured and verified actual energy savings by customer participation.

Metrics of Success:

- Acquire efficiency savings (8.4 aMW in 2008, 12.2 aMW in 2009, 14.5 aMW in 2010, 15.1 aMW in 2011 and 15.3 aMW in 2012).
- Cost per MWh to save energy (<\$40 per MWh calculated over implemented measure life).

Boundary Re-Licensing

Initiative Overview:

We will continue to pursue the relicensing process for our Boundary facility, working to secure a long-term FERC license by 2011 that balances our need for power with the strong environmental stewardship of this resource expected by our customers.

Definition of Success:

- Obtain a new FERC license that adequately mitigates for environmental and societal impacts while maintaining ratepayer value and operational flexibility;
- Work collaboratively with stakeholders and tribal nations to develop science-based protection, mitigation, enhancement measures.

Metrics of Success:

Success will be measured by the extent to which the new license:

- Protection, mitigation and enhancement measures directly address project effects as identified by relicensing studies.
- Operations constraints, if any, with minimal economic impacts.
- Enables Boundary to provide a similar portion of the Seattle power portfolio.
- Reflects successful collaboration with stakeholders and tribal nations.

Financial Strength Initiatives Enhancement of Rate-Setting Guidelines

Initiative Overview:

We will continue to recommend financial policies for rate setting that allow us to set predictable rates and to ensure the long term financial health of the utility. These policies will include achieving a debt-to-capitalization ratio of 60% or below by the end of 2010, maintaining adequate cash reserves, and ensuring sufficient debt coverage ratios to achieve favorable credit ratings.

Goals under this initiative include:

- Setting out a 5-10 year trajectory for expected rates.

Definition of Success:

- Rate predictability and improved financial health of City Light.

Metrics of Success:

- 10-year rate projection consistent with Strategic Plan completed.

- Debt-to-capitalization ratio of 60% or below by end of 2010.
- Recovery of Standard & Poor's AA bond rating (achieved December 2008).
- Sufficient cash from annual operations.

Programmatic Budgeting

Initiative Overview:

The City currently breaks down City Light's budget by organizational unit and cost line item. City Light is evaluating another breakdown of the budget reporting along programmatic lines. This alternative will provide management with additional insight into how resources are used and the cost of these resources, as well as help to ensure that measurable results can be achieved for various programs. Programmatic budgeting will be closely linked to the metrics established under a performance management system, another strategic initiative, the High Performance Team Priority, Enterprise Performance Management/Business Intelligence (BI).

Definition of Success:

- Based upon SCL's value chain, develop programs, i.e. group of activities that produces a strategic outcome and develop a Business Intelligence system to report outcomes so that program performance may be improved.

Metrics of Success:

Develop program metrics to assess, e.g.

- Is programmatic accountability clear within the utility?
- Does staff correctly budget, time keep and records cost?
- Does management use programmatic information to make better decisions, improve performance and deliver programmatic outcomes?
- Does management understand the relationship between programmatic budgeting and the City's formal, legal budget control level (BCL) requirements?

Strategic Capital Planning

Initiative Overview:

In order to plan strategically for capital spending, and thereby to establish stable, predictable rates, we will take a ten-year view of capital requirements. This time span will reflect the lead times required in our industry and will better inform our biannual budget submissions required by the City. Capital budgets will be prioritized using a variety of clear criteria linked to our strategy and these criteria will be reviewed periodically to as needed

Definition of Success:

Timely 10-year forecast of capital needs, incorporated into the normal annual budget process, in order to inform a predictable stream of future rates and assure adequate access to capital at reasonable rates.

Metrics of Success:

- Capital allocation priorities are aligned with the strategic plan.
- A long-term financial outlook is published as part of the production of the strategic plan.

Enterprise Risk Management (ERM) Process

Initiative Overview:

We will expand the role of the Risk Oversight Division beyond its current role of reviewing energy risk only. An Enterprise Risk Management Council will be created by the Superintendent to cover a broader range of risks. It will include business process, construction, regulatory, and legal risks, that are of sufficient impact and probability that they warrant systematic tracking and decision-making. These risks will be incorporated into a comprehensive risk management system for the utility.

Definition of Success:

- Implement an Enterprise Risk Management Process and create a risk aware culture at City Light.

Metrics of Success:

For 2008 the following would be strong evidence of success:

- Establishment of an Enterprise Risk Policy, Establishment of an Enterprise Risk Management Council, Initial identification of the top 10 risks facing the utility. Identifying risk treatment plans for the top risks.

High-Performance Organization initiatives Recruitment and Hiring Strategy

Initiative Overview:

We will develop a specific strategy for identifying, attracting, and compensating the personnel needed to sustain and build the utility in future years.

Definition of Success:

- Enable Seattle City Light to attract and retain a highly qualified workforce that is reflective of the community that we serve.

Metrics of Success:

- Vacancy rate,
- filling all positions within 45 days with a highly qualified candidate,
- The demographics of our workforce reflect the community we serve.

Retention, Development, and Succession Strategy

Initiative Overview:

We will develop an employee development program that will develop internal skills and leadership, leading to advancement of employees to new positions and new challenges, especially in key critical roles. We will

substantially expand our capabilities for providing career development and training.

Definition of Success:

- To ensure that we have internal staff that are adequately trained and developed to be highly productive in their current roles and to be competitive for promotional opportunities to advance their career growth.

Metrics of Success:

- Vacancy rate.
- Co Op Internship Program Developed and Implemented.
- 100% of Managers and Supervisors Complete Leadership Development Program.

Compensation Calibration

Initiative Overview:

We will review compensation levels among comparable employers and will develop a compensation plan that makes City Light competitive.

Definition of Success:

- Offer pay that is on par with the Utility market so that we can attract and retain employees with the requisite skills to ensure that we can offer timely, reliable, cost efficient electric service to our customers.

Metrics of Success:

- Attract talent to vacant roles within 45 days of posting the position advertising closing date.
- Vacancy rate.

Performance Management/Business Intelligence

Initiative Overview:

The EPM/BI project will help Seattle City Light (City Light) determine how best to improve performance measurement at the utility. The initiative will focus on accomplishing sustainable, financial and operational performance excellence by creating data consolidation and reporting systems where management can quickly analyze work unit performance from varying perspectives.

City Light identified the need to source data from various legacy systems, and compile and aggregate the data for management reporting, metrics and dashboard creation. The current environment is a combination of Oracle databases (e.g. Peoplesoft Financials for the Budget process), Microsoft Access databases and spreadsheets and manually created reports. The data originates in numerous functional areas and may or may not be maintained by the centralized City Light Information Technology Division. This environment necessitates considerable manual effort to identify and analyze data and create reports using the data. For this project City Light selected

Cognos as the software technology solution to provide operational performance information in the form of executive, management and staff-level reports, metrics and “dashboard” reports of performance data.

This pilot will set the stage for three primary performance management initiative benefits: Closing Data Gaps; Improving Information Flow; and Saving Time on Report Production. The development of a consolidated performance management process and the centralized data warehousing to support it will provide the foundation for linking the metrics to another initiative, a programmatic budgeting system.

City Light’s expectations and requirements are that the EPM system has the capability to source, utilize, and warehouse all relevant EPM data. The data from the identified systems will be processed and presented in management reports, scorecards and executive dashboards through use of the EPM/BI tool.

Definition of Success:

For the pilot: the implementation of a performance management/business intelligence solution in one area, “on-boarding” for customer electrical connections. The pilot is a proof of concept initiative with a scope limited to capturing and reporting on data associated with selected Key Performance Indicators (KPI’s) in this area.

If the pilot achieves its goals, then an enterprise performance management/business intelligence program will be rolled out throughout the utility.

Metrics of Success:

- Data Integrity.
- Key Performance Indicator selection.
- Process improvement areas selected.

Implement the IT Strategic Plan

Initiative Overview:

Regularly update and implement the Information Technology Strategic Plan to ensure that information technology is effectively planned, budgeted, and acquired to meet the business needs and long-term objectives of City Light.

Definition of Success:

- Information Technology Strategic Plan is updated and adopted by the IT Strategy Council every 2 years.
- The IT Strategy Council prioritizes and approves all major information technology investments, consistent with their charter.
- Policies are established that direct and support cost-effective implementation of information technology.
- IT Strategies are achieved through priority projects.

Metrics of Success:

- Information Technology Solutions modernized and consolidated through EUSP vendor solutions.
- Fewer custom interfaces to support due to implementation of EUSP vendor solutions.

Race and Social Justice Program

Initiative Overview:

City Light models and is committed to the mission and goals of the City of Seattle Race and Social Justice Initiative by creating a culture in which race does not determine success in our organization and does not determine the delivery of services to our customers.

Definition of Success:

End institutionalized racism through addressing five areas of concern:

- Workforce equity.
- Economic Equity.
- Public Engagement.
- Immigrant and refugee inclusion and access to services.
- Capacity building.

Metrics of Success:

- Provide translation and interpretation services for key documents, major projects, and events.
- Complete Historically Underutilized Businesses (HUB)/ Woman and Minority Business Enterprise (WMBE) outreach plan annually.
- Meet HUB/WMBE annual targets
- Conduct succession planning efforts to ensure employees opportunities for development and advancement.
- City Light's workforce is representative of the City's diversity across all levels and functions.
- City Light's public engagement processes are intentionally multicultural.
- City Light's programs, policies, and procedures eliminate institutionalized racism.

Appendix B

Glossary of Terms

- 1. Strategy**– a carefully devised plan of action to achieve our goals.
- 2. Vision**– where we aspire to be.
- 3. Priorities**– foundational conditions needed to reach our vision.
- 4. Objectives**– the specific goals we are pursuing to assure those conditions.
- 5. Initiatives**– the key action plans necessary to achieve those goals.
- 6. Washington State Initiative 937 (2006)**– This initiative imposes targets for energy conservation and use of eligible renewable resources on the State’s electric utilities serving more than 25,000 customers. Utilities, public and private, must secure 15 percent of their power supply from renewable resources by 2020. The utilities must also set and meet energy conservation targets starting in 2010.
- 7. Western Climate Initiative**– State governors participating in the Western Climate Initiative have undertaken to reduce regional greenhouse gas emissions by 2020 to a level 15 percent lower than 2005 levels.
- 8. Integrated Resource Plan (IRP)**– An IRP is a comprehensive look at present and future demands for electricity and the plan for meeting those demands.
- 9. North American Electric Reliability Corporation (NERC)**– NERC’s mission is to ensure the reliability of the bulk power system in North America. To achieve that goal, NERC develops and enforces reliability standards; assesses reliability annually via 10-year and seasonal forecasts; monitors the bulk power system; evaluates users, owners and operators for preparedness; and educates, trains and certifies industry personnel. NERC is a self-regulatory organization, subject to oversight by the U.S. Federal Energy Regulatory Commission and governmental authorities in Canada.
- 10. Federal Energy Regulatory Commission (FERC)**– FERC is a federal agency reporting to the US Department of Energy. The Federal Power Act of 1920 empowered FERC’s predecessor agency to issue licenses for the construction, operation and maintenance of dams and powerhouses and to oversee wholesale power market transactions and wholesale transmission.
- 11. Bonneville Power Administration (BPA)**– BPA is a federal agency that markets power from Federal Columbia River Power System and several non-federally owned projects in the Pacific Northwest. BPA also owns most of the transmission grid in the region.
- 12. Renewable Energy Credits REC’s)**– REC’s, also known as Green Tags or Tradable Renewable Certificates (TRC’s), are tradable environmental commodities in the United States which represent proof that 1 megawatt-hour (MWh) of electricity was generated from an eligible renewable energy resource.
- 13. System Average Interruption Duration Index (SAIDI)**– the duration of power interruptions. This measure is intended to reflect basic day-to-day system performance and therefore, does not include major weather events.
- 14. System Average Frequency Index (SAIFI)**– the frequency of power interruptions. This measure is intended to reflect basic day-to-day system performance and therefore, does not include major weather events.
- 15. Sustainability**– This term, coined by the World Commission on Environment and Development report, *Our Common Future*, means “meeting the needs of the present without compromising the ability of future generations to meet their own needs.”
- 16. Smart-Grid**– Smart Grid is a transformed electricity transmission and distribution network or “grid” that uses robust two-way communications, advanced sensors and distributed computers and smart meters to collect and convey customer use and system operating information so that energy will be used and delivered more efficiently, reliably and safely.

Appendix C

Community Engagement

Seattle City Light Communications & Public Affairs (C&PA) conducted extensive public outreach during the strategic plan review process October – December, 2008. Outreach will continue as the plan is modified or new information and programs are available for the public to review. The initial outreach included a total of 30 meetings and events, reaching more than 1,300 people. We gathered contact information from many of the people, including about 600 mailing addresses, 75 email addresses, and 30 phone numbers. The meetings scheduled in 2008:

- Three public forums: Northgate, Queen Anne and Rainier Valley
- Twenty targeted meetings with hard-to-reach/non-English speaking groups (Filipino, Vietnamese, Chinese, Somali, Hispanic, and Korean)
- Meetings with City Light employees at five locations (including Skagit and Boundary)
- Meeting with labor union representatives
- Forum for Key Customers
- Forum for environmental groups
- Meetings with the City Light Advisory Committee
- Presentation to the Chamber of Commerce (Municipal League meeting was in January)
- Forum for key community leaders of non-profit groups and groups serving hard-to-reach audiences.

To support outreach efforts, we included two publications:

- *The Power Daily* — a tabloid-sized newspaper that explains the strategic plan and the new conservation plan (and translated into all seven languages); and
- *Your Energy Future* — a summary of the major priorities in the strategic plan.

The Power Daily was translated into all seven Tier One languages.

We used CFL "give-aways" as an incentive for attendance; and we scheduled many of the community meetings at a time when the community group was already meeting. In addition, our success at the public forums was the result of inviting randomly-selected customers either by e-mail, where an e-mail existed, direct mail, community newspaper advertising, posters in local retail locations and then phoning individuals within a 1 mile radius of the event and reminding them to attend.

Our customers and stakeholders are interested, engaged and willing to learn more about the Strategic Plan and our conservation efforts. Though our residential customers do

not consider energy conservation, utility upgrades, and Seattle City Light top on their list of concerns, they are willing to do their part — especially if it means they will save money by being smart.

In all of our meetings, we received many positive comments and recommendations for the future of City Light. Indeed, our customers and stakeholders believe we are on the right path and are eager to see Seattle City Light be the best in the country in conservation, making good investment decisions, and keeping them in the loop about future plans.

In summary, we have many people interested in making lifestyle changes to conserve energy as part of their lives. We need to continue to keep the message simple, succinct, and direct. People want to do more: they just don't want to spend a lot of time learning how to do it.

The comments and questions we received were more specific to current operations, programs and finances, as opposed to long-term strategic planning efforts. However, where specific recommendations were made about the strategic plan, those were noted and incorporated as appropriate. The following summary helps to identify the input we received from customers and stakeholders. A detailed list of questions received is on file with the Utility for those who are interested.

Working with Seattle City Light on this outreach effort was The Connections Group, a local public affairs consultant with extensive experience in public outreach and engagement programs.

Audiences

Our outreach targeted the following audiences: employees, labor unions, key customers, stakeholders, environmental organizations, and Tier One Cultural Communities — communities which require communications in one of the top seven languages in Seattle besides English: Spanish, Vietnamese, Cantonese, Mandarin, Somali, Tagalog, and Korean. This section summarizes the input from these audiences.

Employees

Six employee forums were held:

- October 22nd at the South Service Center
- October 23rd at the North Service Center
- October 30th in Newhalem (Skagit Project)
- October 31st at the South Service Center
- November 3rd at the Town Hall Seattle (SMT employees)

The discussions ranged from recruiting, retaining and training of employees to the role of rates for financing the various components of the Strategic Plan — to questions

about infrastructure improvements. Another common theme was that employees wanted to know more about alternative energy and what role hydropower will play. Lastly, employees wanted more information about the process of getting the Strategic Plan approved by the Mayor and City Council.

Labor Unions

The discussions centered around employment opportunities and recruitment, along with technical questions about automated meter infrastructure (AMI) and the regulation of power production, and what the carbon emission issue will mean for City Light.

Key Customers

This audience had many questions relating to the requirements of I-937. There was also some interest in City Light's position on buying off-set credits, asking if we are lobbying on the issue. There also were some questions about how we will achieve the Strategic Plan in terms of financing, technology, and making efficiency improvements in our own internal processes. Finally, key customers urged the utility to work more closely with large customers to achieve conservation and energy efficiency, especially as it relates to shared risk in achieving goals.

Stakeholders

Environmental

Audience members had many thought-provoking questions, comments and suggestions. Many discussed the relationship between federal and local policy and whether City Light is in a position to take advantage of federal funding for infrastructure projects. There also was interest in federal support for developing solar initiatives. Considerable discussion centered on a "green economy" and how City Light can help frame the discussion. Many felt there was an opportunity for City Light to initiate a green jobs training program. Echoing a question from stakeholders, there was a question about Green Power and how well it's doing.

Key Leaders Brown Bag Lunches

The other approach to reaching stakeholders was to organize brown bag lunches with leaders from the community including one group of leaders from ethnic organizations and one group of women leaders. One leader wanted to know if City Light is training contractors to apply conservation building methods in new construction. They also wanted to know about programs for the populations they serve, specifically rate assistance and apprenticeship positions and programs for non-English speakers. They also had some suggestions for communicating with the community such as more conversations about rates and more education programs.

Women leaders were interested in knowing City Light's position on potential national and local legislation around carbon emissions and national energy policy. They also wanted to know the potential of getting funding from the Obama administration's investments in infrastructure and our priorities for more local revenue sources. The infrastructure they were particularly interested in was smart grid technologies. Lastly, a large portion of the discussion was focused on the green economy — particularly job training and how we address that potential in the strategic plan.

Seattle City Light Advisory Committee

Committee members did an in-depth review of the Strategic Plan and provided written comments related to the following areas:

- Include ratepayers/stakeholders as an assessment category similar to how there was an industry assessment used in the plan;
- Look strategically at the challenges facing City Light and how they will be proactively addressed and not merely react to them;
- Carefully assess technology as a solution — that is, determine if technology expenditures are beneficial and provide a true return on investment;
- Strategically address rates and the desirability to have rates be predictable and reasonable rather than reactionary.

Customers

There were a number of questions about the relationship between national, state, and local energy policies. To start, some audience members needed clarification on the status of national legislation to reduce carbon. They also wanted to know how the Seattle City Light strategic plan compares nationally with energy plans being discussed. And there were many questions about how Seattle City Light makes our projections of future energy use: are we taking into account the future use of electric cars and increased use of electronics like computers? Are we taking into account the population growth that Puget Sound Regional Council predicts? Are we considering any potential decrease in available water to power our turbines?

Audience members also needed clarification on whether or not hydropower is considered a renewable resource in Washington and other states. Many asked how hydropower and conservation fit into the equation of meeting our statewide renewable energy standards. There were also a number of questions about what kinds of renewable resources we are considering (geothermal, and wind turbines or solar panels for individual homes). Customers were anticipating problems with the availability of wind



Northgate Public Meeting



Asian Counseling Referral Services Korean Senior Lunch



Columbia City Public Meeting



Dia de Muertos Festival



Somali Community Service of Seattle Senior Lunch



Sea Mar South Park Latino Senior Lunch

and solar at certain times of the day and asking about the potential to store energy. These concerns also led to discussions of smart grid and smart metering technologies, and the ability to charge customers time of use rates.

Customers want to know what incentives we are giving people to conserve, especially considering that our low rates do not motivate people to change their behavior. Audience members suggested that City Light develop a conservation package for businesses and homeowners, and that we implement more energy audits for individual homes. They also suggested that we take advantage of people in the community who want to get more involved. One man mentioned a rate committee that he was on in the past. Two audience members mentioned that they were part of Green Up and want more information about that program (how much money it has and where the money is going). Another asked about volunteer opportunities within the conservation plan.

Recommendations and Next Steps

Comments and suggestions about the five Strategic Plan priorities are identified and summarized below.

Financial Resiliency

- Financial resources need to be identified and prioritized to meet infrastructure, environmental and power requirements
- Long term rate consideration needs to be tied to capital and operating priorities
- Identify other financial resources such as federal grants to achieve specific objectives such as Automated Metering Infrastructure (AMI) and Smart Grid; new solar installations, etc.
- Prioritize revenues in order to ensure necessary infrastructure investments can be realized
- Assess whether conservation growth could impact future utility revenues.

High Performance Organization and Human Resources

- Provide clear indication on how critical jobs will be replaced as workforce retires — succession plan and transfer of knowledge
- Describe how skilled trades and engineers will be recruited and young students will be encouraged to enter the utility workforce
- Describe how employees will be re-trained to new technologies to ensure advancements today and into the future; and describe the utility's plans for acquiring necessary technology for operational efficiencies
- Ensure that the strategic plan identifies and supports “green jobs” for today and the future.

Protect & Enhance the Environment

- Identify what steps are being taken to mitigate impacts on fish and wildlife as concerns increase on climate change impacts, particularly in the North Cascades
- Describe how City Light will respond to the 2050 carbon reduction challenge.

Maintain a Cost Efficient Power Resource Portfolio

- Describe how City Light operating systems will meet the same conservation goals established for other commercial entities during the next five years
- What are the options available to City Light if no new renewable resources are available to purchase at a reasonable price if it is to meet the requirements of I-937
- Considerable reliance is being placed on conservation as an energy resource, address how City Light will meet its goals and keep customers engaged
- Identify what are the alternative power and habitat protection options if climate change severely impacts available water resources
- Identify the existing and/or potential new renewable resources that can be relied on for alternative energy and meeting the requirements of I-937.

Strengthen and Improve Energy Deliver Infrastructure

- Identify how improvement costs to an aging transmission and delivery infrastructure will be met
- Transmission is a critical issue throughout the United States, address how City Light can ensure sufficient transmission availability for its customers
- Identify how City Light intends to provide better information to customers on outages and restoration.

Next steps include regular up-dates about the Strategic Plan delivered to customers and stakeholders in a variety of ways:

- Existing newsletters for residential/small business and key customers
- Web-based information on the Strategic Plan Website
- Briefings for community groups, civic organizations and customer forums
- Direct e-mail and U.S. information to those who asked to be included in future up-dates
- Briefings for the media
- Utilization of community social media (e.g. “Blogs”) Up-dates for elected officials and the Advisory Committee.