



Seattle City Light Draft Strategic Plan

Leadership Forum

April 14, 2008



Seattle City Light

Why do a Strategic Plan?

- ◆ Provides a long-term view
- ◆ Links initiatives to our vision
- ◆ Planned response to critical developments

How Our Customers and Policy Makers Benefit from a Strategic Plan

- ◆ Educates them on our circumstances and challenges
- ◆ Provides a thoughtful, managed response
- ◆ Lower cost comes from the long-term view

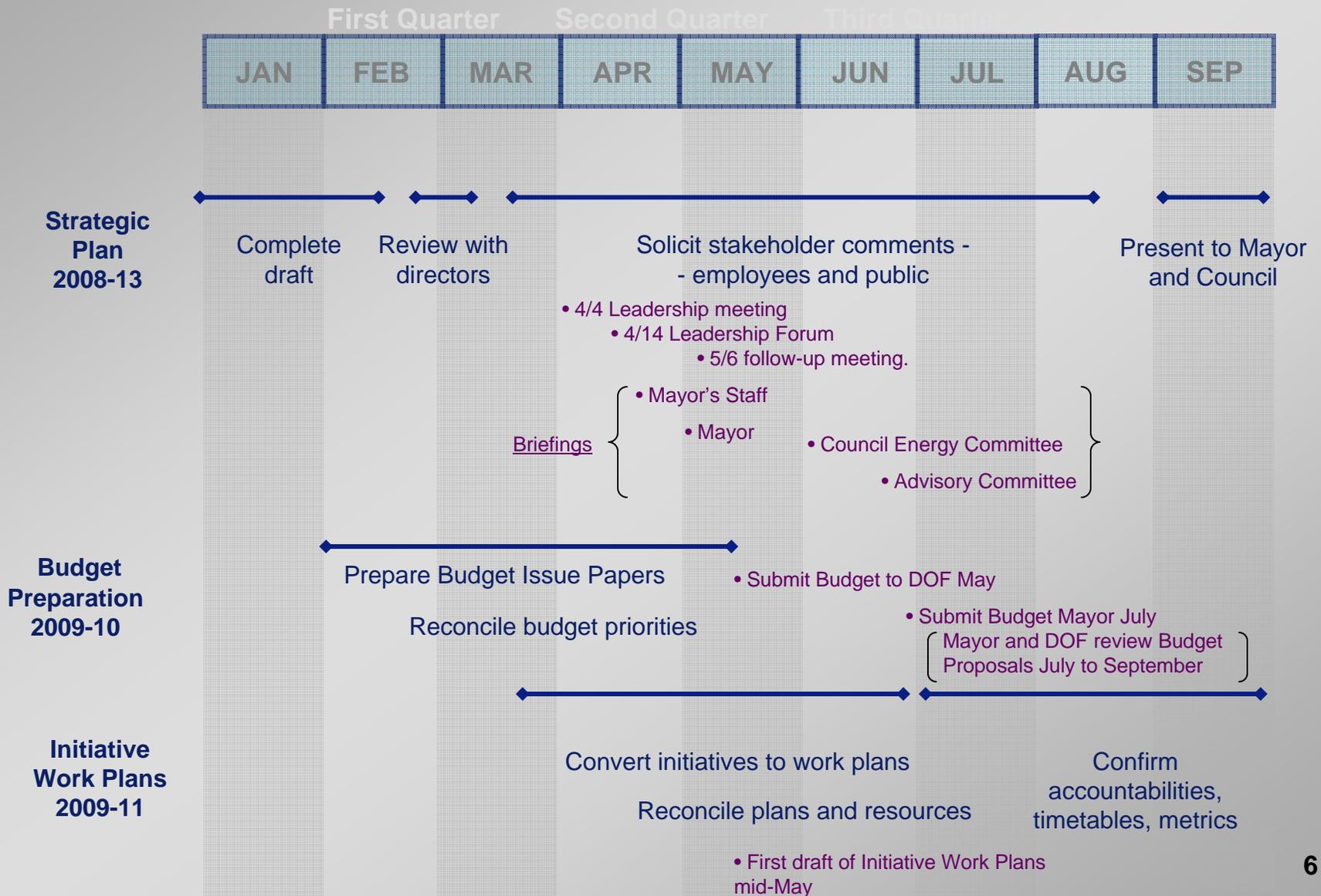
How Employees Benefit from a Strategic Plan

- ◆ **Helps secure adequate resources**
- ◆ **Provides roadmap to avoid crisis management**
- ◆ **Can guide career planning, development and growth**

Agenda and Objectives

- ◆ **Timetable**
- ◆ **Strategic context**
- ◆ **Panel presentation of the plan**
- ◆ **Discussion, connections and Q&A**
- ◆ **Next steps**
 - **Meeting with supervisors**
 - **Discussions**
 - **Follow-up meeting**

Strategic Plan Implementation Timeline



Developing the Strategy

Strategic Landscape

- ▶ Constraints
- ▶ Challenges
- ▶ Opportunities
- ▶ Implications

Vision, Mission, and Values

- ▶ What we want to be
- ▶ What we value



Strategy

- ▶ How we plan to attain our vision, given our circumstances
- ▶ Our priorities
- ▶ Our objectives
- ▶ Key strategic initiatives



Operating Plan

- ▶ Objectives
- ▶ Budgets
- ▶ Staffing

Investments

- ▶ The capital plan

Outreach

- ▶ Communication with governance bodies
- ▶ Stakeholder alignment
- ▶ Understanding of resource needs



Performance Management

- ▶ Metrics
- ▶ Analysis
- ▶ Course correction
- ▶ Incentives

The Strategic Landscape

Electric Power Industry

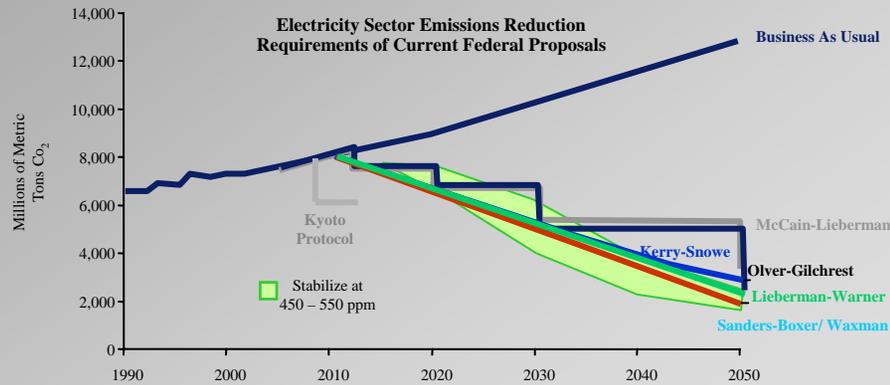
Regulation and Governance



Utility Condition

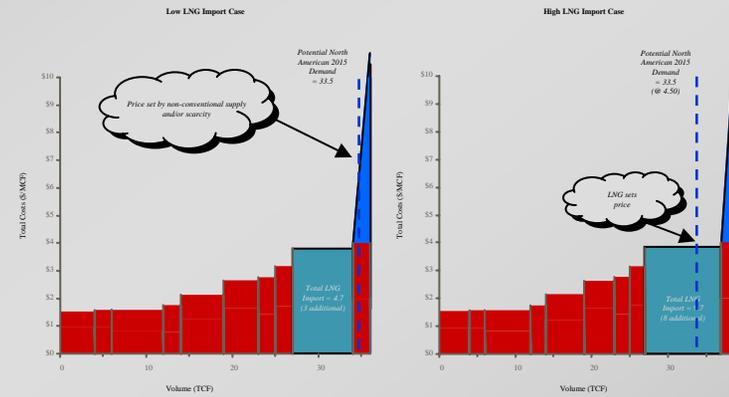
Industry Uncertainty

Expected carbon regulation . . .

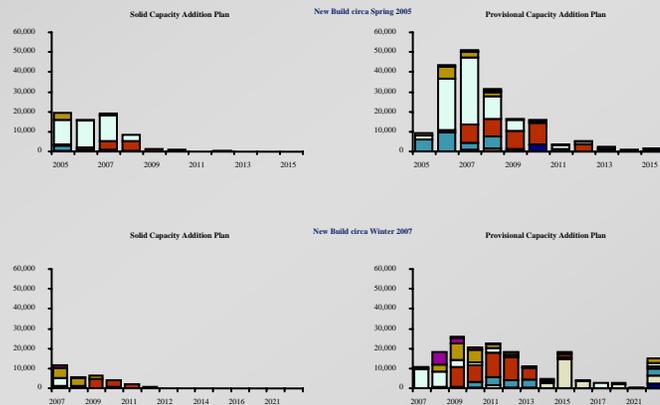


Source: Pew Center on Global Climate Change

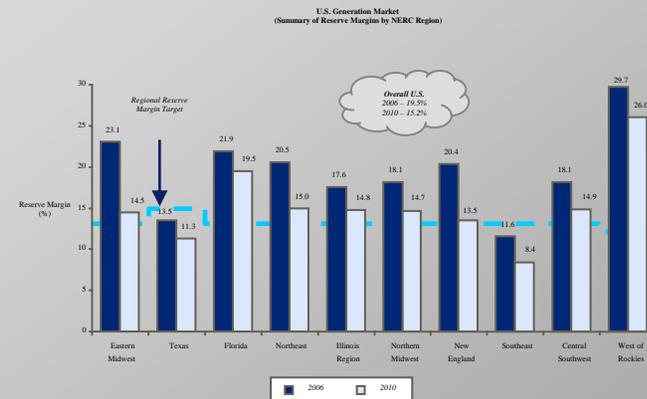
Plus gas price uncertainty . . .



Are inhibiting base-load investment . . .

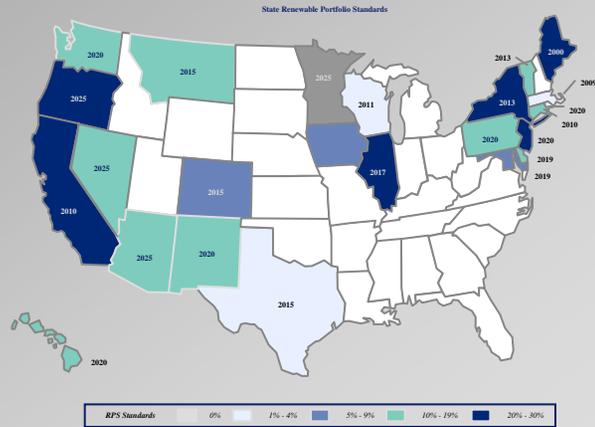


With consequent shrinking reserve margins and rising power prices

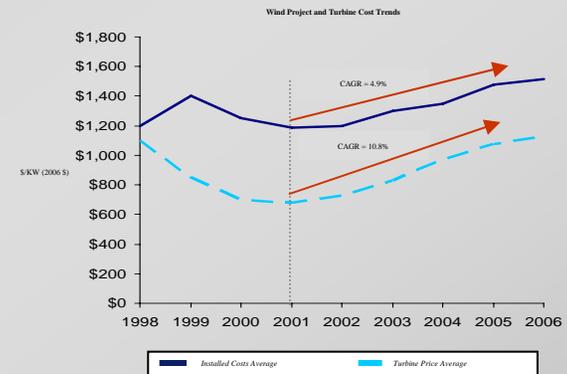


Industry Complications

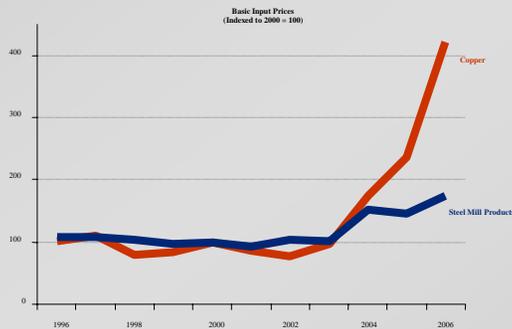
Public policy increasingly favors renewable generation . . .



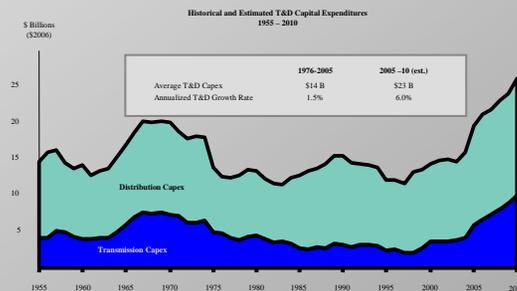
Which causes component scarcity . . .



In an environment of generally rising input costs . . .

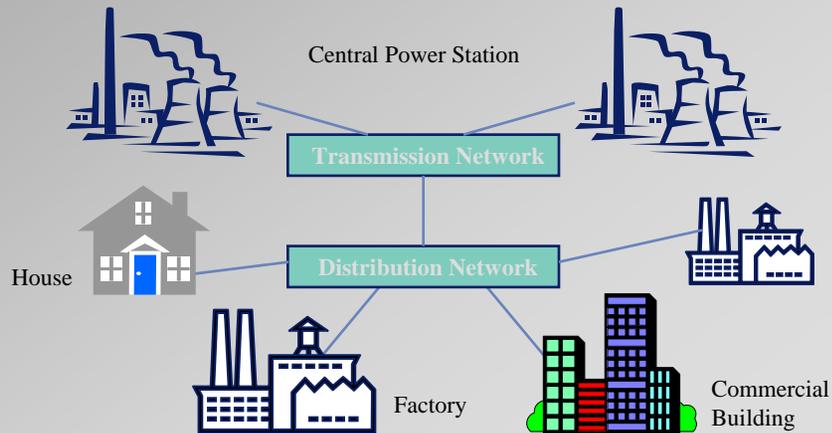


And pressing needs for increased investment in T&D infrastructure



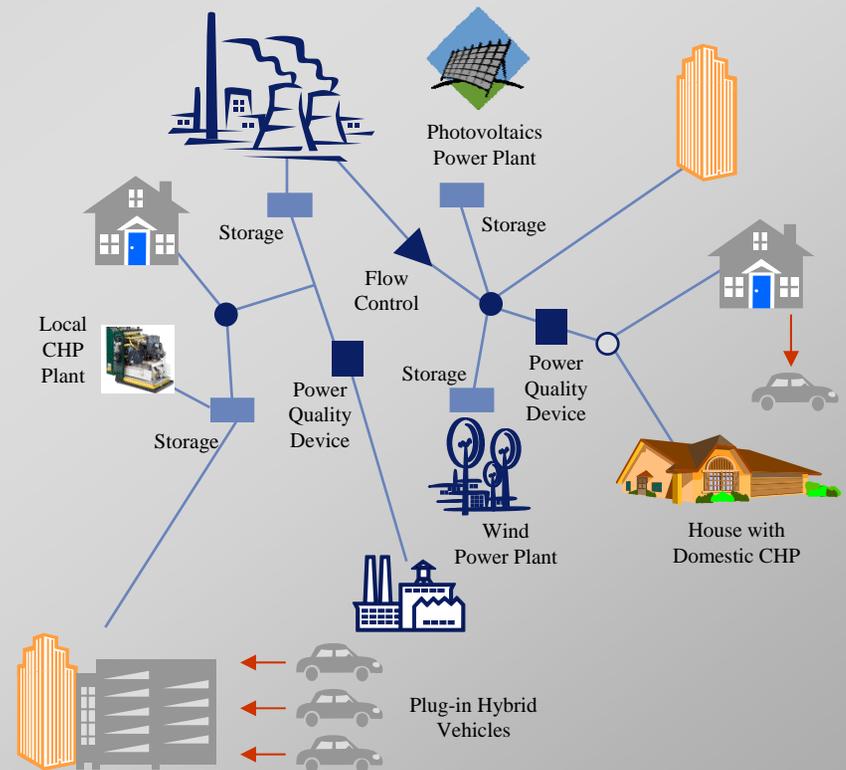
A More Complex Role for Distribution

Yesterday



Tomorrow

Distributed / On-Site Generation with Fully Integrated Network Management



Growing Regulatory Pressures

Higher Expectations

New, complex FERC regulations regarding reliability, security, and market power

Greenhouse Gas regulation: Federal, regional, State, City

State-level RPS requirements - - Initiative 937

Community expectations for reliability, environmental stewardship, development support

Constrained Options

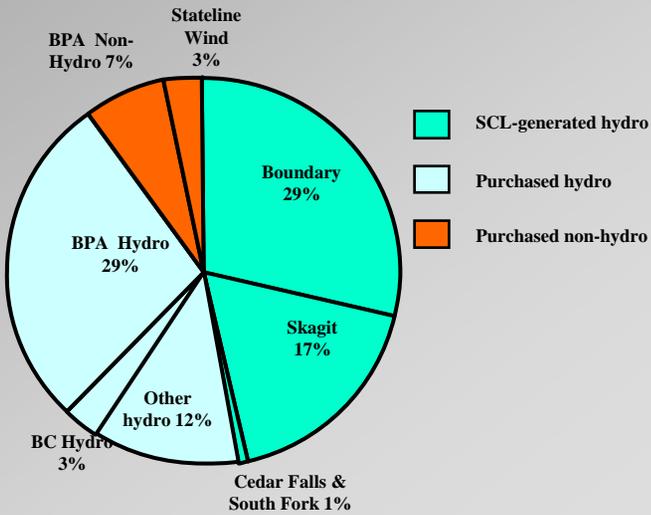
City Light

Caught in the middle

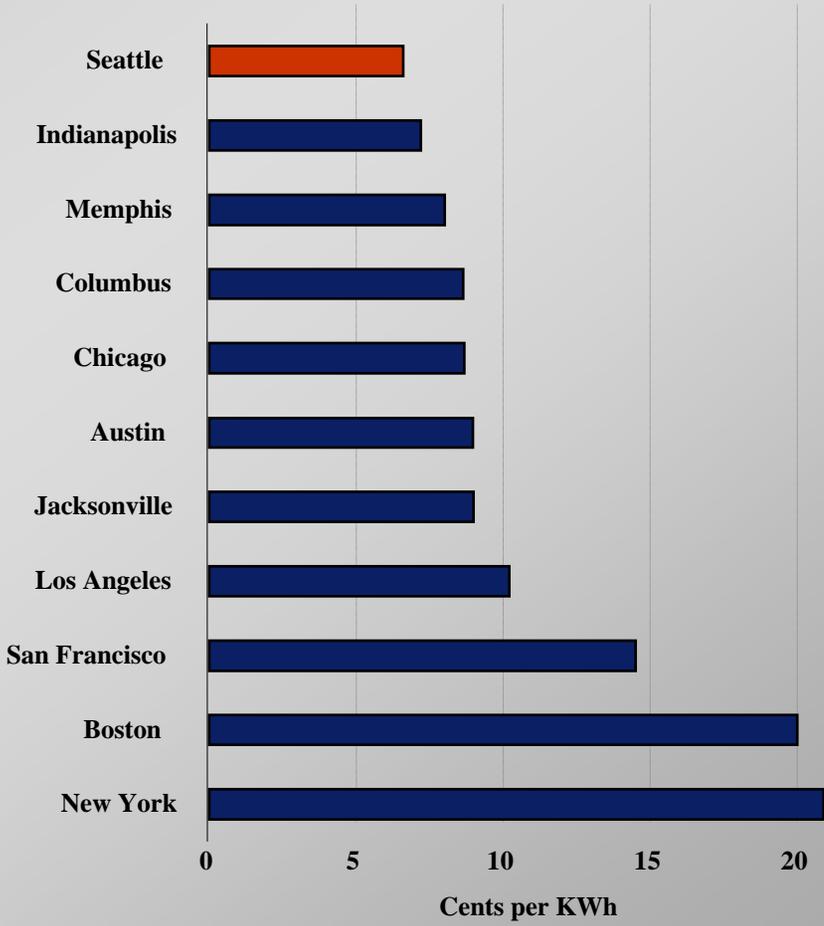
City administrative rules, processes, and perspectives intended for public-sector functions

Hydro Dependency

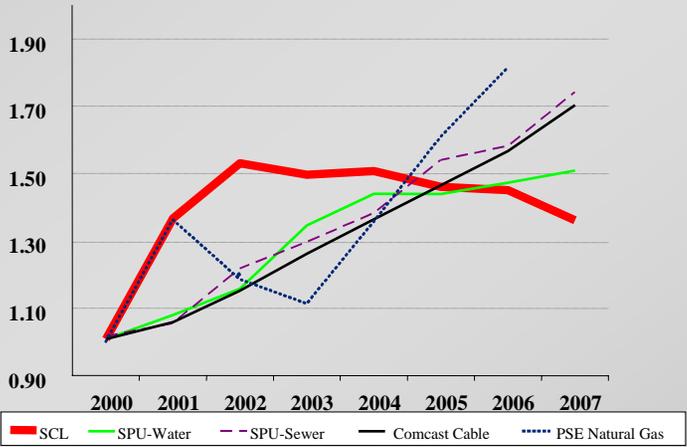
Power Sources



Comparative Metropolitan Power Rates

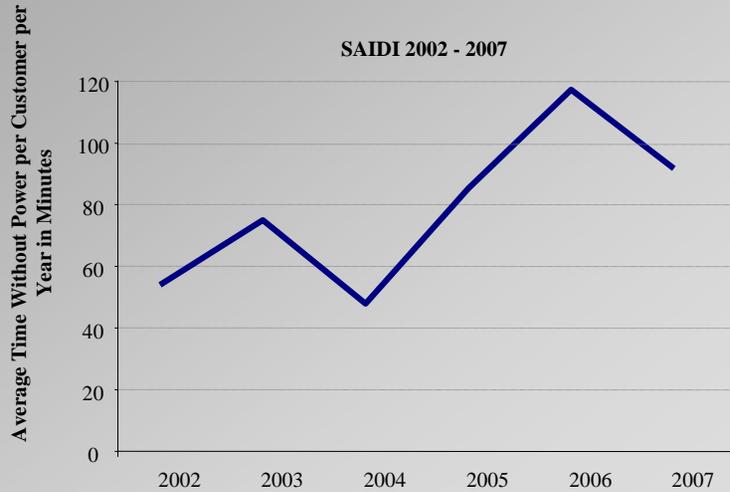


Comparative Seattle Rates

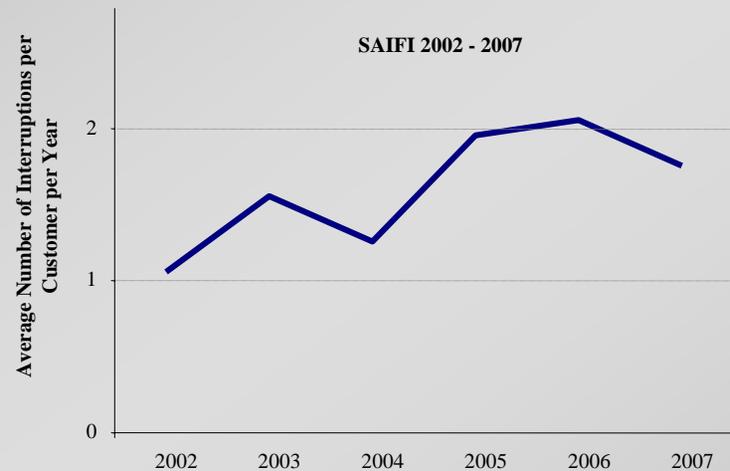
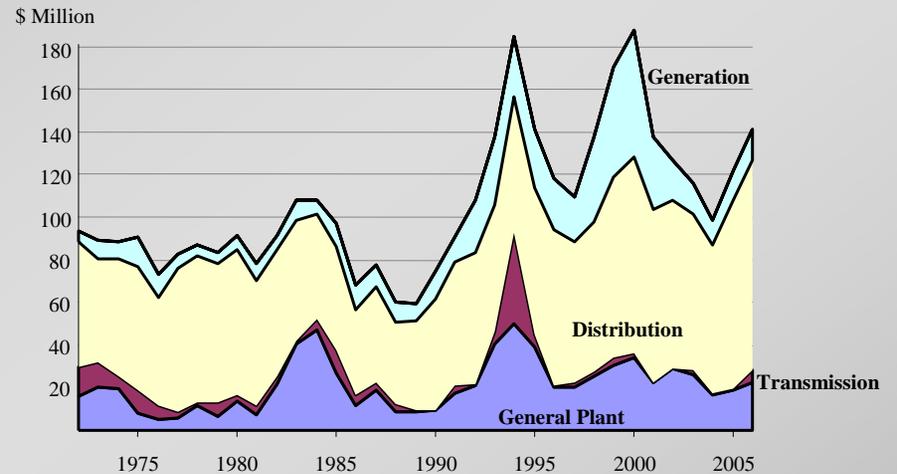


Resource Concerns

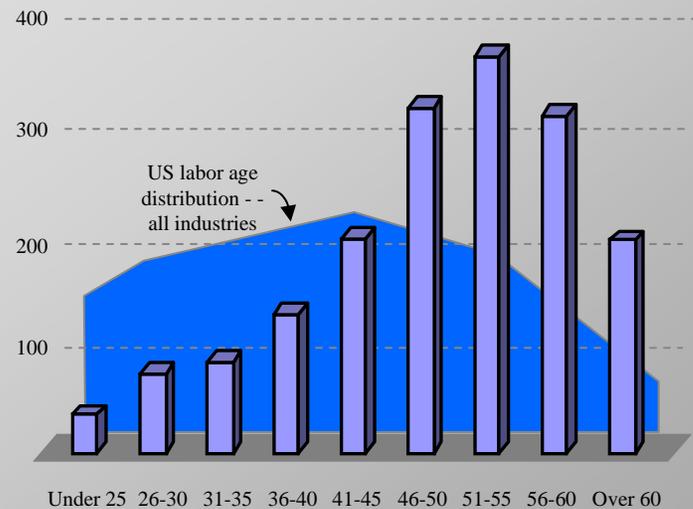
Reliability



Capital Investment



Employee Age Distribution



The Nutshell Version

Electric Power Industry

- ▶ **Generation risk.**
- ▶ **Renewables investments.**
- ▶ **Demand-side solutions needed.**
- ▶ **Cost increases ahead.**
- ▶ **A limited talent pool.**



**SCL's
Challenges
&
Opportunities**

Regulation and Governance

- ▶ **Increasing federal oversight**
- ▶ **Hydro limits.**
- ▶ **RPS mandates.**
- ▶ **Local oversight process flexibility.**

Utility Condition

- ▶ **Sound finances and operations.**
- ▶ **Upcoming investment needs.**
- ▶ **Human resource challenges.**
- ▶ **Customer priorities and implications**
- ▶ **Information Technology revitalization.**

Our Strategic Challenge

Given this strategic landscape, how can we best organize our efforts in order to attain our vision?

Our mission is 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.

We take as our guiding values for this mission excellence, accountability, trust, and stewardship.

In order to perform this mission in the best way possible, and to serve those values, we have adopted a simple long-term vision:

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

What Does that Vision Mean?

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

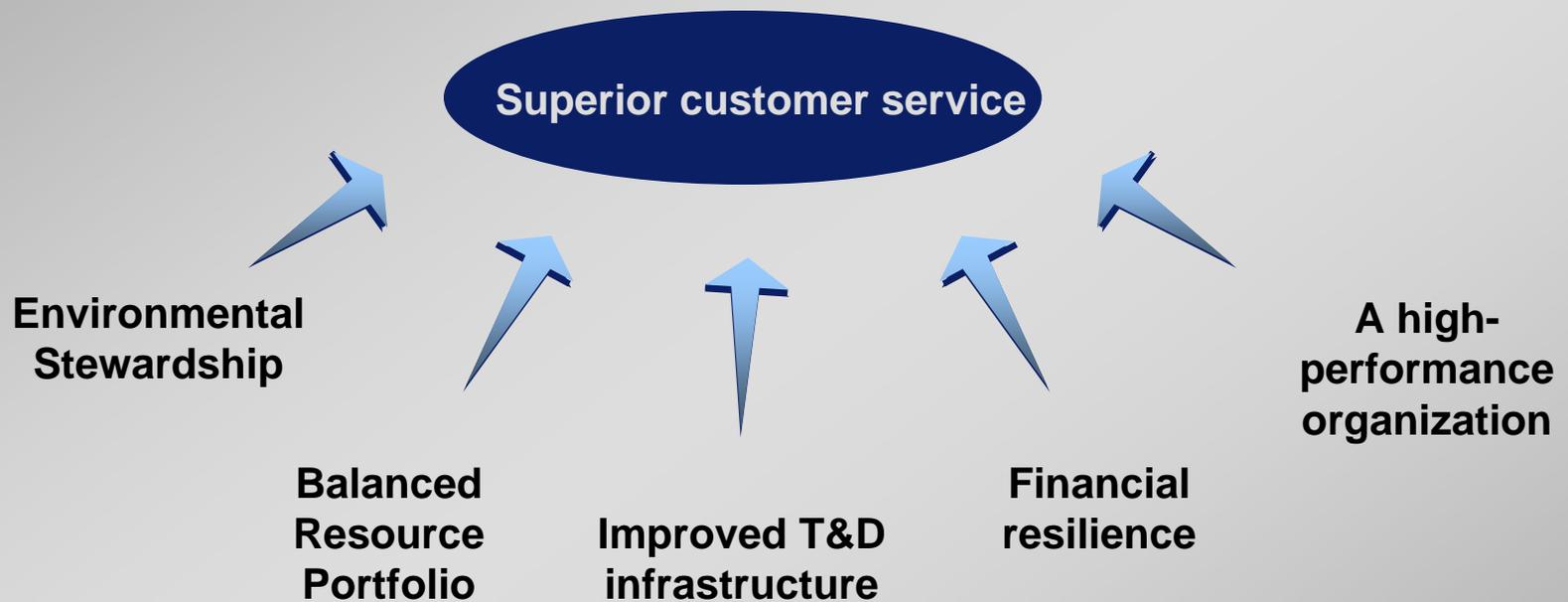
Reliability - - Ensuring that our customers have power when they need it at a price they expect. This commitment requires a strong portfolio of power resources with adequate reserve capacity, a reliable and resilient transmission and distribution network, and skilled management of the risks that affect 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.

Strategic Priorities



Environmental Stewardship

Priority

To protect and enhance the environment through our choices in power supply, our conservation efforts, our daily operations, and effective environmental programs.

Objectives

- ▶ *Meet or exceed the requirements of all applicable environmental laws, regulations, and policies.* We see compliance as a minimum level of good environmental performance and intend to manage our operations to meet all our environmental responsibilities and reduce environmental risk.
- ▶ *Promote the efficient use of materials and resources in all phases of a facility's life.* In designing, building, managing, and maintaining our facilities we aim to conserve resources, including water and electricity, and to minimize our impact on the environment.
- ▶ *Prevent pollution.* We will continuously reduce the quantity and toxicity of materials used and waste generated from our facilities and operations, through conservation, reuse, recycling, and technological improvements.
- ▶ *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 as a utility which produces zero "net" greenhouse gases. We will also expand our extensive efforts to promote energy conservation. We will incorporate environmental costs, risks, and impacts when making decisions.

Energy delivery infrastructure

Priority

To 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.

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 infrastructure investment and adequate, long-term preventive maintenance
- ▶ *Provide a consistent, responsive, and superior customer service experience.* We must be in a position to anticipate customer needs, define customer service standards, align services and processes to meet those needs, and continually monitor and improve our performance.
- ▶ *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 need to 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.
- ▶ *Anticipate city development patterns and corresponding infrastructure requirements.* We need to ensure that we are supporting economic development through timely investment and proactive environmental planning

Balanced Resource Portfolio

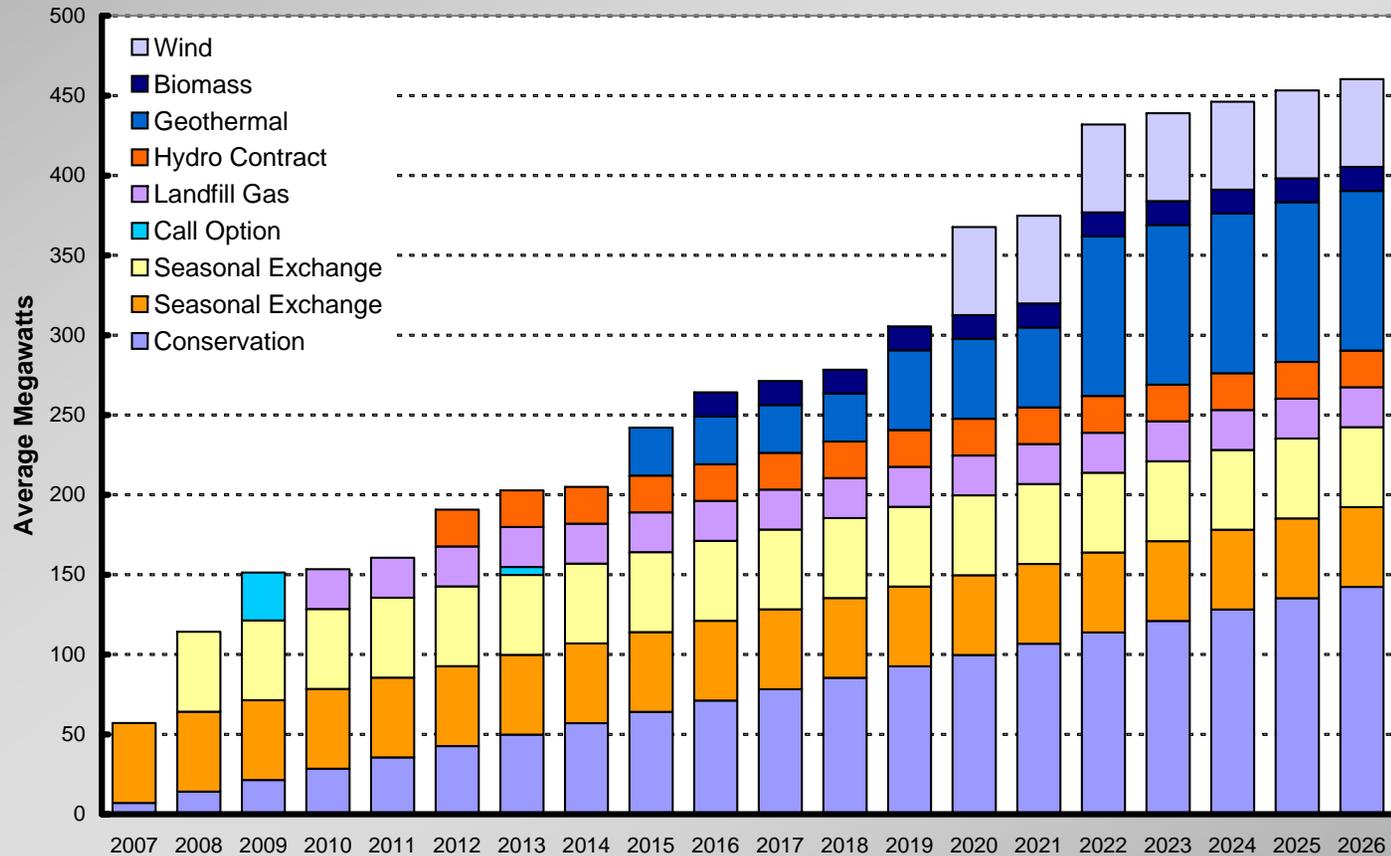
Priority

To develop a cost-efficient portfolio of power resources that fills the needs of our customers with maximum efficiency while meeting all public-policy requirements.

Objectives

- ▶ *Plan and acquire a portfolio of power resources that provide the least-cost, long-term supply adequacy, and that satisfy City and State renewable energy and demand-side management mandates and targets. Secure beneficial new long-term energy purchases from BPA.*
- ▶ *Step up our conservation programs, our most cost-effective resource.*
- ▶ *Improve our capabilities in maximizing the benefits of our portfolio of resources, consistent with our risk policies, procedures, and limits. Employ industry-competitive tools and resources to obtain the highest possible value for City Light's customers and to prudently manage risk.*

2006 IRP Preferred Portfolio (Best Performing I-937 Compliant)



2-Year Action Plan Summary - 2006 IRP

- ◆ Study the costs and benefits of accelerating conservation
- ◆ Work to ensure reliable transmission capacity for City Light
- ◆ Pursue City Council approval for seasonal capacity contracts
- ◆ Pursue summer for winter exchanges as needed
- ◆ Pursue landfill gas opportunities in 2007-2008
- ◆ Investigate geothermal resources, distributed generation, and new renewable technologies
- ◆ Further investigate the impacts of climate change
- ◆ Investigate renewable energy credits for I-937 compliance
- ◆ Study cost-effectiveness of hydro efficiency projects
- ◆ Investigate costs and benefits of a hydro contract
- ◆ Begin 2008 IRP in 2007

Balanced Resource Portfolio

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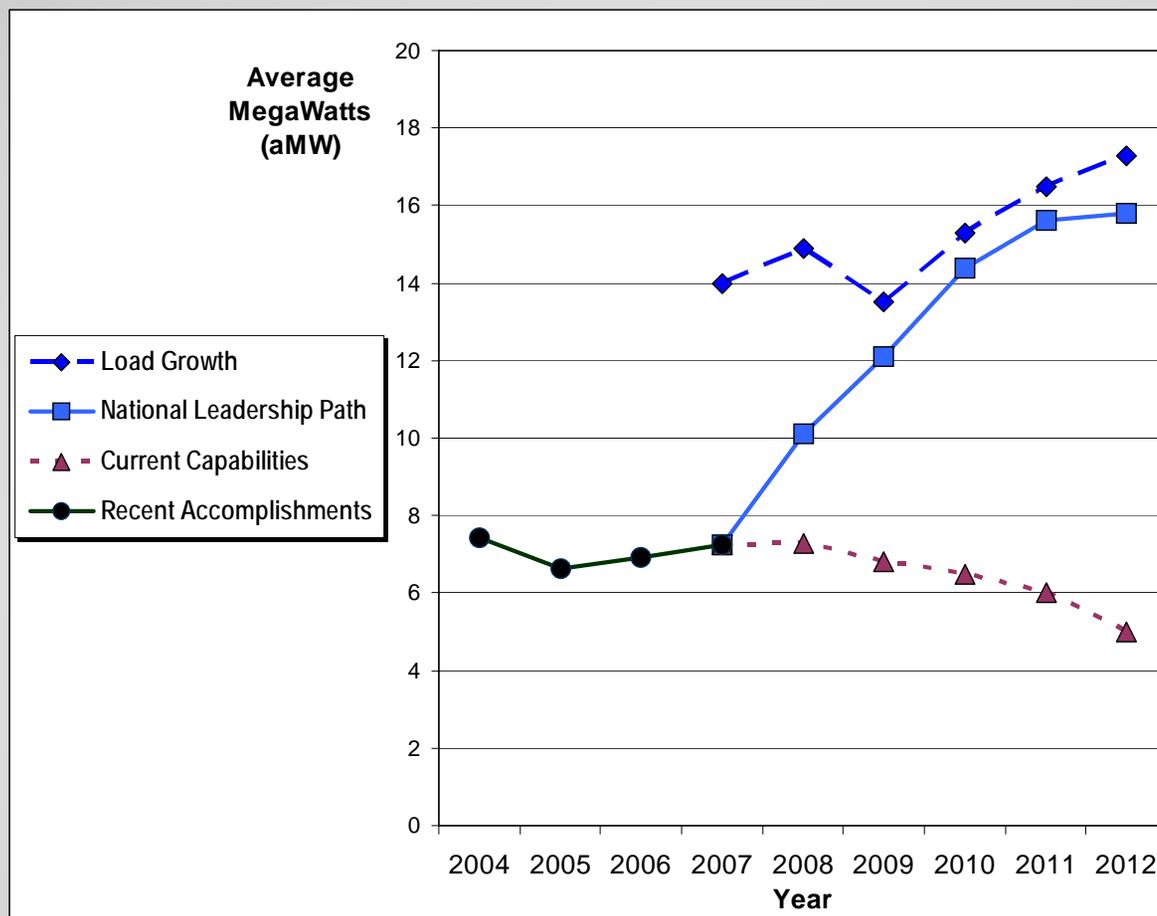
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The Conservation Power Plant

National Leadership Path: Aggressive and Doable

- **Rebuild** the infrastructure
- **Expand** existing conservation programs
- **Develop** new conservation programs
- **Incorporate** renewable energy and demand response



The National Leadership Path

Energy Savings and Budget

The National Leadership Path			
Estimated 5-Year Energy Savings and Budget			
Year	aMW	MWhs	\$ Million ^[1]
2007	7.25	63,510	\$20.19
2008	10.1	88,476	\$22.80
2009	12.1	105,996	\$31.39
2010	14.4	126,144	\$39.56
2011	15.6	136,656	\$44.49
2012	15.8	138,408	\$46.04
2008-2012 TOTAL	189.1	1,656,516	\$184.28

[1] CRD Budget. Does not include \$10.5M in expected offsetting revenue or \$32.2 M in labor loading and A&G expenses

Financial Resilience

Priority

To ensure that the utility is financially resilient to protect our customers against the inevitable risks that arise from our hydro dependence and from our many links to the broader power market.

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.

High-performance team

Priority

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 delivering superior customer service.

Objectives

- ▶ *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.*
- ▶ *Align the purposes and activities of all employees through open and consistent two-way communication, transparent planning, appropriate delegation of authority, and clarity of priorities and values.*
- ▶ *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.*
- ▶ *Nourish a strong safety environment that promotes high levels of safety awareness and rigorous insistence on safe processes.*

Implementation Objectives

- ▶ **Support the strategy with** clear and realistic operational commitments
- ▶ **Align staff and promote** teamwork around common objectives
- ▶ Deploy human, financial, and management resources optimally **in light of City Light's strategic vision**
- ▶ **Vest** ownership of goals and results with appropriate line management
- ▶ Provide clear accountability **through integration of strategic and operational planning, resource budgeting, and performance management**
- ▶ **Provide** clear criteria for measuring success **and timeliness, and for alerting management to the need for mid-course correction**

Keeping It in Perspective

- ▶ **The purpose of planning is to become more effective - - not in generating plans and paper but in running the enterprise**
- ▶ **When planning provides clarity and focuses action, it is useful. When it crowds out useful action, it is not.**
- ▶ **Documents should be as brief as possible to convey the critical information**
- ▶ **We should keep asking: Does this planning step add value that justifies the time and effort required? Will it help us focus our efforts, deploy our resources better, and end the year with a more significant record of accomplishment than otherwise?**

Question One: How Do We Sustain Our Strategic Focus?

- ▶ Staying focused on execution. Spending less time on “fire-fighting” and more time on our strategic priorities.
- ▶ Keeping leadership focused on our priorities.
- ▶ Dealing with the “too much else going on.”
- ▶ Embedding the strategic plan in *all* future communications.
- ▶ Recognizing that we need to make choices, not just what we *will* do but also what we will *not* do.
- ▶ Fending off extraneous projects beyond our control - - e.g. SDOT and Sound Transit projects, suburban undergrounding.

Question Two: **What Must We Do To Ensure a Fit between Resources and Commitments?**

- ▶ Having sufficient funding, time, and personnel.
- ▶ Securing City government buy-in.
- ▶ Developing sufficient program management skills.
- ▶ Staffing up to handle the defined initiatives, and understanding what our staffing priorities should be.
- ▶ Overcoming our current work force limitations. Hiring people with the skill sets we need to transform the utility.
- ▶ Acquiring the analytic talent and the system needed to manage our hydro portfolio risk, and securing City authorization and funding for that purpose.
- ▶ Addressing all these issues when our plates are already spilling over.

Question Three: **How Do We Make Our Strategy Tangible?**

- ▶ Making the strategy “real” for employees, so that they understand our direction and their role in executing our strategies.
- ▶ Anticipating a “So now what?” response with specific follow-on plans.
- ▶ Moving from flowery language to plans that match the reality employees see.
- ▶ Having owners for each objective. Tracking progress and holding teams accountable for results.

Question Four: How Do We Work with Our Culture To Make the Strategy Successful?

- ▶ Working across organizational boundaries in an organization that typically does not appreciate the value of teamwork.
- ▶ Establishing a context for employee expectations, helping them understand there will not be instant solutions, showing them how they can participate in a dynamic planning process.
- ▶ Getting buy-in from an employee culture that is short-term focused, from employees who don't think in terms of strategy regarding SCL.
- ▶ Dealing with our internal culture of employee entitlement.
- ▶ Overcoming our organization's resistance to change.
- ▶ Securing buy-in from our unions.
- ▶ Persuading employees that a strategic plan matters.
- ▶ Showing sensitivity to alternative views of the future.