

May 09, 2018

M E M O R A N D U M

To: CM Mosqueda
From: Tony Kilduff
Subject: City Light Strategic Plan Update

Introduction

This memo gives a brief overview of the Council process for reviewing the forthcoming update to the City Light Strategic Plan (Plan). The Plan provides the basis for City Light's subsequent rates and budget. The memo also provides context for the Council's approach to reviewing City Light's spending and rates, and notes the key challenge facing City Light that this update to the Plan hopes to address.

Process

At the end of this month the Mayor will transmit City Light's Six-Year Strategic Plan for 2019-2024. This will begin the Council's review of the utility's planned spending over the next six years, and the rates it projects it will need to support that spending. The Council currently has three Select Committee meetings scheduled to complete the review: May 31 at 9:30 am, June 14 at 9:30 am, and June 28 at 2:00 pm.

The Mayor will transmit the update to the Plan as an attachment to a resolution that would do three things:

- Adopt the update to the Plan, either as transmitted by the Mayor or as amended by the Council;
- Request that by the end of August the Mayor transmit a rate ordinance to the Council that would provide City Light with sufficient retail revenue to support the spending in the first two the adopted Plan; and
- Request that as part of the upcoming biennial budget the Mayor transmit a budget (spending plan) for City Light that is consistent with the goals of the adopted Plan and the revenue provided by the rate ordinance.

The review of the Plan typically begins with an overview by City Light of the two-year process leading to the update, including a presentation on the [outreach](#) to stakeholders the utility undertakes as part of each update.

City Light will then present the details of the Plan to the Select Committee and answer Councilmember questions about the assumptions underlying the Plan, and the decisions the utility made in developing the Plan. Some questions may require City Light to perform additional analysis and return to the Select Committee with responses at a later meeting.

The Mayor's transmittal will include a letter from the City Light Review Panel (Panel) detailing its assessment of the Plan and accompanying rate path. The letter will reflect the Plan that City Light presented to the Mayor. The Plan the Mayor transmits to the Council may differ from that. It is customary to invite representatives from the Panel to make a brief presentation to the Select Committee.

After City Light and the Panel have made their presentations to the Select Committee, Central Staff will make its presentation and provide recommendations for the Select Committee to consider.

To conclude the process, the Select Committee gives guidance to City Light for any changes to the Plan or the rate path through amendments to the Mayor's resolution. Typically, the Council will refer the rate ordinance that comes out of the review process to the standing committee with responsibility for City Light for consideration so that the Select Committee does not have to reconvene. Also, the Budget Committee generally limits its review of City Light's budget during the budget process to ensuring it is consistent with both the adopted Strategic Plan and rates.

Background and Context

Prior to the adoption of the first Plan in 2012, the Council's engagement with City Light had been episodic, centering mainly on crisis-driven rate increases: a 58% increase in 2001; a 13.8% increase in 2010; and a 4.5% mid-year surcharge again in 2010. The 2010 rate increase came to the Council as part of the 2009-2010 biennial budget, and discussion of the reasons for City Light's stressed financial circumstances consumed a significant portion of budget deliberations that year.

The Council's frustration with the uncertainty around the utility's financial stability and its future spending plans and rates led the Council to establish the City Light Review Panel in 2010. The Panel consists of nine volunteers from among City Light's customer groups.¹ The Panel's mandate was to work with the utility to bring stability and predictability to City Light's spending and rates. City Light sought to achieve this goal by developing a rolling six-year planning process around spending and rates that it updates every two years. The Panel provides input and feedback to City Light throughout the two-year planning cycle, but the Plan that emerges remains the responsibility of the utility. The Panel provides the Mayor and the Council with its independent assessment of the Plan.

The Council adopted the first Plan in 2012, covering the period 2013 to 2018. That Plan identified the spending the utility believed it would need to maintain services at their existing levels over the following six-year period—the so-called baseline cost. The Plan also included new initiatives and additional spending the utility believed would improve service delivery to its











¹ Panel members serve for three years. The Mayor appoints five of the members and the Council appoints four. The Council confirms all appointees.

customers in the future, such as a new substation on Denny Way, deployment of modern customer meters capable of communicating directly with the utility, and a significant investment in the utility’s aging infrastructure.

Although the Council only adopted rates for the first two years of the Plan, the Plan provided a roadmap for the future that City Light would update every two years and present to the Council for consideration. The first update was in 2014 and covered the period 2015 to 2020. The Council approved the proposed spending plan and established new rates for 2015 and 2016 to support it.

The Council also approved the second update of the Plan in 2016, covering the period 2017 to 2022. At that time, City Light had also proposed a change in rate structure that the Council declined to approve. It did, however, approve the rate increases the Plan required.

Central Staff’s [memo](#) to the Select Committee in 2016 on that update to the Plan identified a troubling trend that was emerging: In the previous four years, City Light’s customers had not consumed as much power as the utility had anticipated, and as a consequence the utility collected \$121 million *less* in retail revenue over that period than anticipated. The [Resolution](#) that adopted the Plan and associated rate path requested that City Light “... prepare options for mitigating and preparing for the financial impacts of possibly flat or declining retail load,² including ... changes to the utility’s approach to load forecasting ...” for the next update to the Plan. Discussion of some of these options occupied five of the meetings of the Energy and Environment Committee in 2017—links to these discussions and materials are here:

3/28/2017	First conversation	 Agenda	 Video
5/23/2017	Retail load issues	 Agenda	 Video
6/13/2017	Possible solutions I	 Agenda	 Video
6/27/2017	Possible solutions II	 Agenda	 Video
7/25/2017	Jim Lizar / Load Forecasting	 Agenda	 Video

2019-2024 Plan

City Light devoted significant effort in the two years since the last update to the Plan studying the sources of its declining load. With the help of a consultant, it developed a new load forecasting methodology. This, the third update to the Plan, covering the period 2019 to 2024, is the first to rely on the new forecasting methodology. The current forecast shows slightly declining retail loads for the next six years. Recognizing and correcting the problems with the load forecast³ is just the first step for City Light—presumably, it now has a better handle on the amount of electricity it will actually sell, and that will allow for better rate setting and cost



² Load is a synonym for electricity demand.

³ All forecasts are wrong to some degree. It took City Light some time to realize there was a systemic problem with its forecasts.

recovery. The next step will be to address the *policy* question of what to do with a utility that has significant fixed costs related to its infrastructure, but which is facing a long-term decline in the demand for the commodity it sells.

As part of this update, and with the encouragement of the Panel, City Light's executive team undertook a strengths, weaknesses, opportunities, and threats ([SWOT](#)) exercise. This provides an interesting insight into how City Light's management perceives itself and the environment in which it operates.

At the beginning of this year, City Light made a presentation to the Housing, Health, Energy and Workers' Rights Committee, introducing the utility to the Committee. Councilmembers may find the overview useful. The link is here:

1/18/2018 [Meeting details](#)  [Agenda](#)  [Video](#)

cc: Kirstan Arestad, Central Staff Director
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