

Honorable Jenny A. Durkan
May 14, 2021
Page 4

Seattle City Light Review Panel

c/o L. Barreca, Seattle City Light
P.O. Box 32023 Seattle, WA 98124-4023
CLRP@seattle.gov

May 14, 2021

Mayor Jenny A. Durkan
The City of Seattle
600 Fourth Avenue
P.O. Box 94749
Seattle, WA 98124-4749

RE: City Light Review Panel Comment Letter on Proposed 2022-2026 Seattle City Light Strategic Plan

Dear Mayor Durkan:

This letter presents our comments on the proposed Seattle City Light (City Light) Strategic Plan for 2022-2026 (the Plan) in fulfillment of our duties as members of the City Light Review Panel set forth in Ordinance 124740.

We are pleased to endorse the Plan and support its adoption as presented. In a quickly evolving landscape, this Plan presents a comprehensive, ambitious and strategic set of goals that we believe are well suited to the challenges faced by City Light and its customers. This letter offers our further thoughts and suggestions to you and the utility moving forward.

At the outset, we want to thank General Manager and CEO Debra Smith for her exceptional leadership of the utility. She and her team have been very supportive of the Panel's role and have engaged with us transparently; they bring welcome and positive change to the utility.

Successes and Challenges since adoption of the 2018 Strategic Plan

Reflecting on how City Light has been impacted since the last Strategic Plan was approved three years ago, the COVID pandemic is at the top of the list of disruptions. It caused a sharp decline in electricity usage and a need to significantly adjust how City Light operates. City Light responded quickly and creatively. Employees worked in new ways and launched new efforts to assist customers. Reliability of our electric service was preserved throughout. The entire City Light team should be commended for their success here.

Nearly a year and a half since the beginning of the pandemic, the speed and nature of the economic recovery we all hope for is unclear. Due to the uncertainty of the pandemic, delivery of the Plan was delayed by a year – it is a 5-year plan, rather than the 6-year plans we have worked on with City Light before. We think the delay was the right move.

Successes we observe since issuance of the last strategic plan include:

- Positive changes in leadership at the top and across the utility.
- Increased participation in the Utility Discount Program.
- Pilot programs launched to test new rate design components including the Energy Equity Rate Pilot, Residential Time of Day (TOD) Pilot, Commercial TOD project and the Demand Response Rate Pilot.
- Improved load forecast methodology.
- Launching of the transportation electrification initiative.
- City Light remains in a strong financial position, with an AA bond rating that helps keeps the rate of borrowing low.

The Plan provides a vision, goals, and high-level initiatives to address several challenges facing City Light in the next few years. The Panel believes there are several pressing issues facing City Light; we identify these challenges below, as they each relate to one of the Plan's five "business strategies." Our comments below are not prioritized and are presented in the order in which the Business Strategies are presented in the Plan.

Business Strategy: Improve the Customer Experience

- Race and Social Justice. There is a need for a more robust social justice and equity response in all government does.
- Growing receivables. In the last year, 20% of City Light's residential customers and 14% of its commercial customers have gone into arrears on their electricity bills.

Business Strategy: Create our Energy Future

- Grid Modernization. City Light's aging electrical grid lacks the flexibility to provide many of the next generation of products and services that customers are beginning to expect.
- Balancing Policy Goals. The utility will need to balance financial and policy support for energy efficiency (reducing demand for electricity) with the new building electrification effort designed to increase demand for electricity.

Business Strategy: Develop Workforce and Organizational Agility

- Focus on Labor Costs. Negotiations have recently been completed with the IBEW to bring City labor costs for line workers in sync with recently approved significantly higher wages in our neighboring electrical utilities. These are critical workers in a competitive hiring environment; this new contract will impact operating costs going forward.

Business Strategy: Ensure Financial Health and Affordability

- Keeping Electric Service Affordable. We are very pleased that the Plan proposes an annual average rate increase over the next 5 years of 3.5% per year -- significantly lower

than the 4.5% annual average in the 2018-2024 Strategic plan. Moving forward, keeping rates at this reduced path will require continued vigilance.

- Rightsizing City Light's Capital Improvement Plan While Ensuring Assets are Maintained. The Panel would like to see a reduction in the rate pressures created by City Light's large annual debt repayment obligations. While use of debt financing does increase affordability in the short term, over time, over dependence on debt will overburden the organization financially. We look forward to working with management to examine alternative ways of financing ongoing system investments. City policy requires City Light to fund its capital improvements with at least 40% operating cash, with the balance coming from borrowing: issuing debt. Funding debt service coverage remains the largest single rate driver for City Light in the 2022-2026 Plan.
- Declining Retail Demand. City Light is continuing to experience year over year declines in the demand for electricity, and there is a major question mark about how and when commercial demand for electricity, in particular, will recover as we move beyond the COVID pandemic. City Light's reliable and comparably low-cost electricity is a critical foundation for our economy, and economic development helps boost revenues for the City in many areas.
- Rate Design. City Light's outdated rate structure under-recovers fixed per customer costs and lacks time of use rates or interruptible rates (the latter two items are under study in pilot projects). Revisions to the utility's rate structure have been put on hold by COVID and we hope will be taken up by the City later this year.
- Reserve Fund Targets. The potential benefits to ratepayers from reducing the target reserve levels in the Rate Stabilization Account (RSA) should be seriously considered. The RSA was established to offset variability in wholesale power revenues that today are a much smaller dollar amount annually than was the case when the RSA was established.

Business Strategy: We Power (maintaining core utility functions)

- Environmental Stewardship. We see a continued need to respond to our region's deeply held environmental values in the operation of the City's hydroelectric assets.

The Panel intends to be fully engaged with City Light on all these challenges moving forward. Success of the Plan will be based on execution; in filling in the details around the high-level initiatives presented and identifying and tracking meaningful metrics to measure success. Due to the consideration of so many interconnected variables, this Strategic Plan contains fewer tactical elements than previous plans. There is tremendous work ahead, and we support the goals laid out in the Plan. The utility will need to be nimble as the uncertainties before us are significant – particularly as to the pace of transportation electrification, and the shape of the economic recovery.

Conclusion

The world in which City Light operates is changing rapidly. The Strategic Plan addresses this uncertainty in many ways, positioning the utility to respond effectively to a range of current and future challenges, all with a significant reduction in the annual growth of electric rates as compared to the prior strategic plan.

We are pleased to support this new Strategic Plan and we look forward to working with the utility on its implementation. We thank CEO Debra Smith, her staff team, as well as the staff from the City Council and Budget Offices all of whom support the work of the City Light Review Panel. It is a pleasure to work with such dedicated, excellent public servants. We thank you, Mayor Durkan, and the Council, for your continued support of our efforts as citizen volunteers serving on the Review Panel, and for your work on behalf of the ratepayers of City Light.

We would welcome the opportunity to speak with you and the City Council about the recommendations in our letter.

Sincerely,

Members of the City Light Review Panel¹



Leon Garnett
Panel Chair
Panel Position #7
Low Income Customer Advocate



Mikel Hansen
Panel Vice-Chair
Panel Position #5
Commercial Customer Representative



Anne Ayre
Panel Position #6
Industrial Customer re
Representative



Scott Haskins
Panel Position #2
Utility Financial Analyst



Sara Patton
Panel Position #3
Non-profit Energy Efficiency
Advocate



John Putz
Panel Position #8
At-Large Customer
Representative



Tim Skeel²
Panel Position #1
Economist

¹ We sign this letter in our individual capacities, not as representatives of our employers. Please note there are currently two vacancies on the panel: Position #4, residential customer, and Position #9, suburban franchise area representative.

² Appointment pending.