

Seattle City Light Review Panel

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Mayor Bruce Harrell
The City of Seattle
600 Fourth Avenue
P.O. Box 94749
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**RE: City Light Review Panel Comment Letter on Proposed 2025-2030
Seattle City Light Strategic Plan Update**

Dear Mayor Harrell:

This letter presents the City Light Review Panel (Panel) comments on the proposed Seattle City Light (City Light) Strategic Plan Update for 2025-2030 (the Plan). Consistent with Ordinance 124740, the Panel has met monthly to track progress on the 2022 Strategic Plan update and provide input to the 2024 Plan. We are pleased to endorse the 2024 Plan and support its adoption as presented.

While the rate path in the Plan is higher than has been proposed in the last few Plans, we believe it to be reasonable and appropriate given the challenges facing the utility. However, there are a number of uncertainties in the forecast. Therefore, if costs decline from the originally projected levels, the Panel would like to revisit the rate path with City Light.

In this endorsement letter, we have noted City Light's recent achievements as well as what is changing for City Light and its customers. We considered these factors carefully when evaluating the Plan.

City Light Achievements

In the past two years, City Light has been focused on the five Strategic Priorities. Several highlights worth noting are below.

To effectively Create Our Energy Future, City Light met the milestones identified in the Transportation Electrification Strategic Investment Plan that was approved by the City Council in 2020. It has installed electric charging infrastructure consisting of 131 Multifamily Level 2 EV chargers and 31 Curbside charging stations. And City Light plans to install public DC Fast

Charging projects in Shoreline and Morgan Junction, as well as replacing obsolete public charging systems. Additionally, City Light developed an internal Grid Modernization Plan to understand what investment in transmission and distribution will be needed to maintain system reliability and to serve future load. City Light has also actively participated in a regional planning forum (the Western Resource Adequacy Program) to plan resources for future load growth and more economically dispatch resources across the region.

Taking steps to Improve the Customer Experience, City Light distributed approximately \$10.6 million in state pandemic funds to help reduce past-due balances for customers in 2022 and 2023, as well another \$3.7 million in Emergency Bil Assistance and Low-Income Home Energy Assistance Program funds. City Light also improved the customer application process for the Utility Assistance Program. And City Light worked on the Time Of Use program which is anticipated to go live in early 2025. With its new Time of Use program, City Light will be able to offer customers more control over energy management.

As part of Develop Workforce and Organizational Agility, City Light launched an organizational change management program to help employees be ready for the future. City Light also continued work on the Utility Technology Roadmap, to right-size and appropriately scale investment in technology initiatives.

Under Ensure Financial Health and Affordability, City Light developed and successfully executed a Road to Recovery strategy that reduced aging receivable risk and stabilized revenues. City Light updated its financial policies with more conservative credit metrics and a debt management strategy that should allow it to maintain its high credit rating and allocate infrastructure costs equitably across current and future customers. These are all material achievements and important to position the Utility to continue to serve the community and its customers.

With respect to We Power, in response to the risk posed to transmission lines and the Skagit facility by wildfire in the North Cascades in summer 2023, City Light completed its Wildfire Risk Reduction Strategy. The strategy focused on the risk of City Light assets causing a wildfire and assessed the risks to City Light assets from a wildfire.

What is Changing for City Light and its Customers?

The Panel's objective has been to understand the fundamental drivers to the Plan's rate path. In short, City Light is facing a significantly different future than two years ago.

Create Our Energy Future

The transition to renewable energy to meet carbon-free goals has increased the cost of power supply. Unfortunately, new clean energy resources are predominantly intermittent energy resources (wind and solar) that are not always available because of weather variability and time

of day. At the same time, City Light's load forecast has a steeper demand growth over the next decade, in large part, from building and transportation electrification. The net effect will be much higher costs in the rate path, as City Light plans energy and capacity to serve future load.

City Light is not alone in this, there is industry-wide competition to find cost-effective clean energy resources and peer utilities are undertaking innovative approaches to managing customer load and influencing customer demand. The Panel supports City Light's efforts to invest in technology upgrades and software and labor procurement that will allow the utility to keep pace with its peers. The Panel supports City Light's efforts to explore all options to cost-effectively meet customer demand with energy and capacity. In addition, exploring cost effective energy efficiency, tools to reduce demand will be valuable. The Panel hopes that City Light's time of use program will support demand reduction and distributed resources, such as demand response programs, grid-interactive efficient buildings (GEBs), and virtual power plants (aggregated distributed energy resources supported by customer based solar and batteries).

Improve the Customer Experience

Customers' needs are changing, but in diverse ways. Customers want smarter solutions, personalized service, more information about their energy use, and a credible information source about available programs, solar options, tax incentives, and rebates. Other customers are- or will be- electrifying their homes, as Washington State phases out natural gas space and water heating.

Commercial customers are undergoing building improvements to comply with state and city building standards. And given state laws to phase out vehicle emissions, City Light has new transportation electrification customers in mass transit, port operations, fleet vehicles, and personal vehicles. Therefore, City Light will need to pursue a range of strategies to effectively serve diverse customer interests.

City Light has experienced persistent backlogs in new service connections. Therefore, the Panel supports City Light's outcome to improve predictability of service connection timelines.

To help customers understand the significant changes facing the utility, City Light will need to prioritize customer engagement, through education and outreach services. Additionally, the Panel has asked City Light to focus on equity and affordability for marginalized communities. Average customer income has not been rising as quickly as inflation. The Panel suggests expanded bill assistance, easier access to programs, a tiered income program, and expanded outreach to target customers.

Develop Workforce & Organizational Agility

The Panel urges City Light to continue driving toward a culture of nimbleness. Given the uncertainty of the speed of demand growth and the cost to serve load, SCL must be ready to adapt for unexpected challenges.

The Panel supports the new General Manager's initiative to rebuild the organization. City Light has not been allowed to offer competitive salaries, despite being one of the nation's largest municipal utilities located in a region with a very high cost of living. It will be important to address compensation disparities and consider any cultural issues that may be leading to unwanted attrition and inability to attract new employees. The Panel recommends City Light, and the City address the salary issue to recruit and retain the talented employees needed to fulfill the goals of the Strategic Plan.

Technology continues to evolve rapidly while cyber security risks are escalating. Therefore, the Panel also supports initiatives to invest in workforce development to transition to new technology applications.

Ensure Financial Health & Affordability

City Light emerged from the pandemic in a stable financial position. However, in 2023, City Light drew down the financial reserves in the Rate Stabilization Account (RSA). Low hydro production and extreme weather demand forced City Light to procure short-term power supply when wholesale market prices were at historically elevated levels. In addition to higher power supply costs, City Light faces other cost pressures. City Light managed annual rate increases below the level of inflation in recent years, but that will be difficult to sustain in the future. Material costs - exacerbated by supply chain challenges - are rising faster than the cost of inflation. And interest rates have risen, which increases debt costs as City Light makes investments. Given the lack of RSA reserves and the combined effect of rising power supply and materials costs, the Panel concurs with the conservative planning criteria City Light embedded in the rate path.

City Light has proposed a higher rate path than was proposed in the prior Plan. We believe that the forecast is reasonable, based upon these external factors. However, we would encourage City Light to take steps to minimize as much as feasible the extent of these rate increases going forward, by determining how to best manage its existing and future portfolio of generation assets for energy and capacity needs and by designing rates to incentivize peak demand reduction. The Panel supports City Light's related Market Risk Management initiative in the Plan.

Finally, City Light is submitting a debt strategy as an Appendix to the Strategic Plan. The Panel supports SCL's adoption of the more robust debt management metrics in the debt strategy.

We Power

The policy and regulatory landscape continue to be complicated. And weather events are increasingly severe. Given the regulatory and weather uncertainty, City Light will need to plan investment diligently to not only meet increasing demand, but to make its delivery system more resilient. City Light must preserve its valuable hydro resources that provide critical balancing and storage, further enabling carbon free resources. The Panel supports continued maintenance of the distribution system and City Light's relicensing work on the Skagit hydro project.

It will be important for City Light to plan investment carefully, to avoid potential stranded investment if reality differs from the forecast. A diversified approach to planning and investment is more valuable than ever. The Panel will look to City Light to maintain a rigorous risk-based planning and review process to ensure expenditures deliver value to customers and the community.

Conclusion

In conclusion, City Light is better positioned than many other utilities, but still faces future challenges. Given the uncertainty regarding the speed and pace of demand growth, changing regulatory requirements, new energy resource technologies, and severe weather events, the Panel supports City Light's conservative planning approach. City Light will need to access capital while it carefully managing resources (customers' trust, a committed workforce, its clean energy resources, and its reliable delivery system).

We thank our new General Manager, the previous General Manager, the City Light 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. They are dedicated, knowledgeable, and transparent. Under the direction of the former General Manager, the Panel saw an important cultural shift at the utility toward greater inclusion and transparency with the Panel. We are confident that, under the new General Manager, this will continue.

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



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Representative



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¹ We sign this letter in our individual capacities, not as representatives of our employers.



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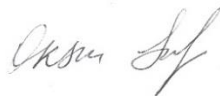
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