



SEATTLE CITY COUNCIL

Legislative Summary

Res 31819

Record No.: Res 31819

Type: Resolution (Res)

Status: Adopted

Version: 3

Ord. no:

In Control: City Clerk

File Created: 05/29/2018

Final Action: 07/20/2018

Title: A RESOLUTION relating to the City Light Department; adopting a 2019-2024 Strategic Plan for the City Light Department and endorsing a six-year rate path required to support the Strategic Plan.

Notes:

Date
Filed with City Clerk: 7/20/2018

Mayor's Signature: 7/20/2018

Sponsors: Mosqueda

Vetoed by Mayor:

Veto Overridden:

Veto Sustained:

Attachments: Att B - Appendix 1- 2019-2024 Strategic Plan Financial Forecast, Att C - Appendix 2 - Summary of Customer and Stakeholder Outreach, Att D - Appendix 3 - Review Panel Recommendations on 2019-2024 City Light Strategic Plan, Att E – June 26, 2018, Review Panel letter, Att F – July 24, 2017, Coalition Letter

Drafter: Leigh.Barreca@seattle.gov

Filing Requirements/Dept Action:

History of Legislative File

Legal Notice Published: Yes No

Ver- sion:	Acting Body:	Date:	Action:	Sent To:	Due Date:	Return Date:	Result:
1	Mayor	06/06/2018	Mayor's leg transmitted to Council	City Clerk			
	Action Text:		The Resolution (Res) was Mayor's leg transmitted to Council. to the City Clerk				
	Notes:						
1	City Clerk	06/06/2018	sent for review	Council President's Office			
	Action Text:		The Resolution (Res) was sent for review. to the Council President's Office				
	Notes:						
1	Council President's Office	06/07/2018	sent for review	Select Committee on the 2018 Seattle City Light Strategic Plan			

Action Text: The Resolution (Res) was sent for review. to the Select Committee on the 2018 Seattle City Light Strategic Plan

Notes:

- 1 City Council 06/11/2018 referred Select Committee on the 2018 Seattle City Light Strategic Plan

Action Text: The Resolution (Res) was referred. to the Select Committee on the 2018 Seattle City Light Strategic Plan

Notes:

- 1 Select Committee on the 2018 Seattle City Light Strategic Plan 06/14/2018 discussed

Action Text: The Resolution (Res) was discussed in Committee.

- 1 Select Committee on the 2018 Seattle City Light Strategic Plan 06/28/2018 adopt as amended Pass

Action Text: The Committee recommends that City Council adopt as amended the Resolution (Res).

In Favor: 3 Chair Mosqueda, Member González , Member Harrell

Opposed: 0

- 2 City Council 07/09/2018 adopted as amended Pass

Action Text: The Motion carried, the Resolution (Res) was adopted as amended by the following vote, and the President signed the Resolution:

Notes: ACTION 1:

Motion was made by Councilmember Mosqueda, duly seconded and carried, to amend Resolution 31819, by substituting version 3 for version 2.

ACTION 2:

Motion was made by Councilmember Herbold, duly seconded and carried, to amend Resolution 31819, by adding new Sections 7 and 8, as shown in the underlined language below:

Section 7. The Council requests that City Light:

1. provide quarterly written reports in 2018 and 2019 to the Seattle City Council Committee having oversight of Seattle City Light on measures and policies that address SCL's employee to manager ratio.
2. submit a written report to the Chair of the Seattle City Council committee having oversight of Seattle City Light at the end of each calendar quarter beginning with the fourth quarter 2018. The report should describe steps taken to address ir affect the employee-to-manager ratio.
3. conduct a thorough review of utility business practices identifying changes in operational and project delivery processes, CIP accomplishment rate, and reconsideration of the scope and scale of discretionary programs, that result in at least a 0.1 percentage point decrease to the combined average annual

rate increase described in Section 2. A written report with specific savings and efficiency recommendations shall be sent to the Chair of the Seattle City Council committee having oversight of Seattle City Light for consideration by March 1, 2019.

4. report to the Council on connection charges and calculation methodology to include interest on existing assets, develop an implementation plan for connection charges, and identify potential impacts to rates related to the proposed policy changes. The purpose of the amendment is to improve the uniformity of connection charges and ensure City Light can effectively recover costs related to city-wide development.

Section 8. Amend Attachment A - Seattle City Light 2019-2024 Strategic Plan to substitute the following text for paragraph two on page 11 of the document:

"To continue to deliver good value, we must work to provide our customers with affordable rates and stable bills. We will achieve this through a combination of controlling costs, innovating to capture new sources of revenue, and updating the way we charge for services in general and for customer connections in particular, including exploring the possibility of system development fees."

ACTION 3:

Motion was made and duly seconded to adopt Resolution 31819 as amended.

In Favor: 8 Councilmember Bagshaw, Councilmember González, Council President Harrell, Councilmember Herbold, Councilmember Johnson, Councilmember Juarez, Councilmember Mosqueda, Councilmember O'Brien

Opposed: 1 Councilmember Sawant

- | | | | | |
|---|--------------|--|---------------------------------|------------|
| 3 | City Clerk | 07/12/2018 | submitted for Mayor's signature | Mayor |
| 3 | Mayor | 07/20/2018 | Signed | |
| | Action Text: | The Resolution (Res) was Signed. | | |
| | Notes: | | | |
| 3 | Mayor | 07/20/2018 | returned | City Clerk |
| 3 | City Clerk | 07/20/2018 | attested by City Clerk | |
| | Action Text: | The Resolution (Res) was attested by City Clerk. | | |
| | Notes: | | | |
-

CITY OF SEATTLE

RESOLUTION 31819

A RESOLUTION relating to the City Light Department; adopting a 2019-2024 Strategic Plan for the City Light Department and endorsing a six-year rate path required to support the Strategic Plan.

WHEREAS, in consultation with the Mayor and the City Council, the City Light Department (City Light) initiated the strategic planning process in 2010 to provide more transparency and accountability for decision-making within City Light; and

WHEREAS, Resolution 31383, adopted July 2012, adopted City Light's 2013-2018 Strategic Plan and endorsed a six-year rate path that supported that plan; and

WHEREAS, Resolution 31383 also specified that City Light would review and update the Strategic Plan every two years, adding two years to and re-evaluating the remaining four years of the existing Strategic Plan; and

WHEREAS, Resolution 31529, adopted June 2014, adopted City Light's 2015-2020 Strategic Plan Update and endorsed a six-year rate path that supported that plan, recognizing significant deviation of anticipated revenue through rates from the 2012 Plan; and

WHEREAS, Resolution 31678, adopted July 2016, adopted City Light's 2017-2022 Strategic Plan Update and endorsed a six-year rate path that supported that plan, recognizing even more significant deviation of anticipated revenue through rates from the 2012 Plan; and

WHEREAS, Resolution 31678 requested that City Light prepare options for mitigating and preparing for the financial impacts of flat or declining retail load including changes to the utility's approach to load forecasting as discussed in City Light's response to Council's 2015 Statement of Legislative Intent 4-1-A-2; and

1 WHEREAS, The financial policies and forecast methods behind the rate path established by the
2 2019-2024 Strategic Plan, should be periodically reviewed consistent with best practices
3 and prudent financial management; and

4 WHEREAS, Resolution 31678 signaled the Council’s interest in working with City Light to
5 establish new strategies and approaches to hiring the next generation of skilled workers,
6 attracting and retaining a highly skilled workforce that reflects the diversity of our
7 community furthering the City of Seattle’s commitment to Workforce Equity, increasing
8 outreach and recruitment within communities of color and historically marginalized
9 groups and developed partnerships with pre-apprenticeship programs identified in the
10 City’s Project Hire program; and

11 WHEREAS, City Light must implement policies and practices to promote a work environment
12 free of discrimination and harassment, particularly gender-based and race-based
13 incidents; fostering a positive workplace culture where all employees are valued and
14 demonstrate mutual respect; and

15 WHEREAS, City Light has completed a review and revision of its retail sales forecasting
16 methodology that resulted in the amended forecasts reflected in the 2019 – 2024 Strategic
17 Plan; and

18 WHEREAS, City Light has reviewed and updated the Strategic Plan by: (a) reviewing changes
19 in its operating environment for the 2019-2024 period and making adjustments to remain
20 within the proposed rate path; and (b) adding a forecast of revenues, expenditures, and
21 investments for two additional years, 2023 and 2024; and

22 WHEREAS, City Light faces challenges that include: (a) new technologies transforming how
23 people use electricity; (b) declining retail energy consumption; (c) lower wholesale

1 energy market prices; (d) impacts of retirements and legacy work processes; and

2 (e) climate change and fostering clean, renewable energy sources; and

3 WHEREAS, Ordinance 123256 established the City Light Review Panel (“Review Panel”) to
4 represent City Light ratepayers and requires the Review Panel to review and assess City
5 Light’s strategic plans; and

6 WHEREAS, the Review Panel has reviewed City Light’s progress in carrying out the Strategic
7 Plan on a quarterly basis since 2013 and has also reviewed the Utility’s proposed changes
8 for the 2019-2024 Strategic Plan Update; and

9 WHEREAS, the Strategic Plan update included extensive customer engagement, with customer
10 and stakeholder group meetings, neighborhood open houses, limited-English-proficiency
11 customer outreach, a market research survey, and social media outreach; and

12 WHEREAS, the resulting Strategic Plan, which includes a six-year rate path, is a package of
13 initiatives and investments to improve customer service, increase rate predictability and
14 affordability, continue City Light’s commitment to conservation and environmental
15 leadership and invest in infrastructure and workforce to provide a consistent level of
16 service, reliability, and response; and

17 WHEREAS, the Seattle City Light Review Panel has offered specific action items for
18 consideration to help address core concerns with the proposed rate path, such as
19 deployment of additional staff to address the changing utility industry, undertaking a
20 holistic benchmark effort, considering the changing capital and infrastructure needs, and
21 planning for fiscal savings in its letter dated May 7, 2018 (Exhibit D) and reaffirmed in
22 its letter dated June 27, 2018 (Exhibit E); and

1 WHEREAS, the City of Seattle and Seattle City Light continue to remain focused on programs
2 that encourage conservation, and rate design can and should have a positive impact on
3 energy efficiency; and

4 WHEREAS, the City of Seattle and Seattle City Light remain committed to addressing
5 affordability, and ensuring greater and equitable access to the Utility Discount Program
6 and other City Light services; and

7 WHEREAS, the City Council has reviewed the Strategic Plan Update, the associated six-year
8 rate path, the recommendation of the Review Panel, and the results of customer and
9 stakeholder engagement; NOW, THEREFORE,

10 **BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE, THE**
11 **MAYOR CONCURRING, THAT:**

12 Section 1. The City Council adopts the City Light Department’s (City Light) proposed
13 2019-2024 Strategic Plan (the “Strategic Plan”), a copy of which is attached to this ordinance as
14 Attachment A and incorporated by reference.

15 Section 2. To achieve the goals of the Strategic Plan, annual rate increases averaging 4.5
16 percent system-wide per year are anticipated over the period of 2019-2024. The following six-
17 year rate path for City Light rates is endorsed:

2019	2020	2021	2022	2023	2024	Average
5.8%	5.4%	3.6%	3.9%	4.0%	4.2%	4.5%

18 Section 3. The City Council requests that the executive submit the 2019-2020 City Light
19 Proposed Budget in support of the Strategic Plan.

20 Section 4. The City Council requests that the executive submit the 2019-2020 City Light
21 Rate Proposal in support of the Strategic Plan, reflecting the endorsed system rate increases of
22 5.8 percent in 2019 and 5.4 percent in 2020.

1 Section 5. The City Council requests that the Seattle City Light Review Panel and
2 General Manager make recommendations in consultation with community partners on an
3 updated rate design, which may include, but not be limited to, the following elements: coincident
4 peak/inclining block rate, voluntary time of use, more progressive rate blocks for residential
5 rates, rate blocks for small and medium general service customers, and/or other options to create
6 greater stability, while promoting conservation, distributed energy resources, and revenue
7 stability for City Light. In considering the various approaches, the Review Panel should
8 recognize that significant increases in fixed or flat charges that reduce the commodity price
9 signal are counter to the City's goals of increasing energy efficiency, as well as have disparate
10 financial impacts on low- and moderate-income households, and will be strongly disfavored by
11 City Council as part of a final updated rate design ordinance.

12 An initial report to the City Council, including examination and review of other rate
13 designs from similarly sized utilities, should be presented no later than January 15, 2019, with
14 final recommendations due by April 1, 2019. Council shall consider implementation of
15 recommendations and legislative action to implement an update to rate design or the Strategic
16 Plan by July 15, 2019. This rate design update shall be conducted in consultation with
17 community partners including, but not limited to, signatories to the July 24, 2017, letter attached
18 as Exhibit F.

19 Any rate design update option should include information about potential impact on
20 revenue stability for the utility; assumed range and assumed average payment for each rate class,
21 along with difference from existing predictions of the rate path; evaluation of current financial
22 policies and practices, , and comparison with similarly situated utilities, and impacts on revenue

1 requirements and rates; and any additional considerations that may present themselves during
2 public participation and process when reviewing rate design options.

3 This analysis shall also include potential benefits, impacts on rates, and diminishing
4 returns from a Utility Discount Program (UDP) automatic-enrollment program. Such a program
5 may utilize a Memorandum of Understanding (MOU) or similar agreement with the Department
6 of Social and Health Services and/or other state agencies to allow the addresses of recipients of
7 state assistance programs to confirm enrollment for UDP automatically. This may also include
8 consideration and analysis of what actions would be required to create a sliding-scale UDP.

9 Additional outreach from City Light to Seattle Public Utilities (SPU) regarding impacts on SPU
10 rates should be included in this analysis.

11 Section 6. City Light will continue to review and update the Strategic Plan at least every
12 two years, adding two years to the Strategic Plan during even-numbered years and re-evaluating
13 the subsequent six-year rate path. City Light shall give at least annual reports on progress of
14 initiatives in the Strategic Plan to the Seattle City Council committee with oversight over City
15 Light. The next review and adjustment of the Strategic Plan will be finalized no later than 2020
16 and will encompass the years 2021 through 2026. This does not preclude mid-cycle adjustment
17 with implementation of updated rate design.

18 Section 7. The Council requests that City Light:

- 19 1. provide quarterly written reports in 2018 and 2019 to the Seattle City Council Committee
20 having oversight of Seattle City Light on measures and policies that address SCL's
21 employee-to-manager ratio.
- 22 2. submit a written report to the Chair of the Seattle City Council committee having
23 oversight of Seattle City Light at the end of each calendar quarter beginning with the

1 fourth quarter 2018. The report should describe steps taken to address or affect the
2 employee-to-manager ratio.

3 3. conduct a thorough review of utility business practices identifying changes in operational
4 and project delivery processes, CIP accomplishment rate, and reconsideration of the
5 scope and scale of discretionary programs, that result in at least a 0.1 percentage point
6 decrease to the combined average annual rate increase described in Section 2. A written
7 report with specific savings and efficiency recommendations shall be sent to the Chair of
8 the Seattle City Council committee having oversight of Seattle City Light for
9 consideration by March 1, 2019.

10 4. report to the Council on connection charges and calculation methodology to include
11 interest on existing assets, develop an implementation plan for connection charges, and
12 identify potential impacts to rates related to the proposed policy changes. The purpose of
13 the amendment is to improve the uniformity of connection charges and ensure City Light
14 can effectively recover costs related to city-wide development.

15 Section 8. Amend Attachment A – Seattle City Light 2019-2024 Strategic Plan to substitute
16 the following text for paragraph two on page 11 of the document:

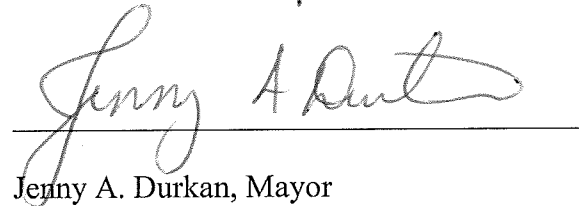
17 “To continue to deliver good value, we must work to provide our customers with
18 affordable rates and stable bills. We will achieve this through a combination of controlling costs,
19 innovating to capture new sources of revenue, and updating the way we charge for services in
20 general and for customer connections in particular, including exploring the possibility of system
21 development fees.”

1 Adopted by the City Council the 9th day of July, 2018,
2 and signed by me in open session in authentication of its adoption this 9th day of
3 July, 2018.

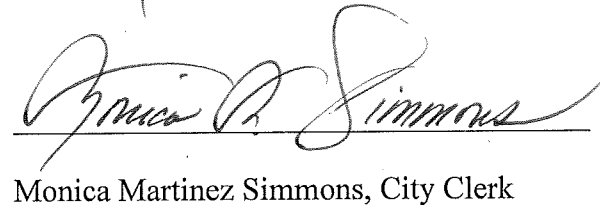
4 

5 President _____ of the City Council

6 The Mayor concurred the 20th day of July, 2018.

7 
8 Jenny A. Durkan, Mayor

9 Filed by me this 20th day of JULY, 2018.

10 
11 Monica Martinez Simmons, City Clerk

12 (Seal)

13
14
15 Attachments:

- 16 Attachment A - Seattle City Light 2019-2024 Strategic Plan
- 17 Attachment B - Appendix 1: 2019-2024 Strategic Plan Financial Forecast
- 18 Attachment C - Appendix 2: Summary of Customer and Stakeholder Outreach
- 19 Attachment D - Appendix 3: Review Panel Recommendations on 2019-2024 City
- 20 Light Strategic Plan (May 17, 2018, Review Panel letter)
- 21 Attachment E - June 26, 2018, Review Panel letter
- 22 Attachment F - July 24, 2017, coalition letter

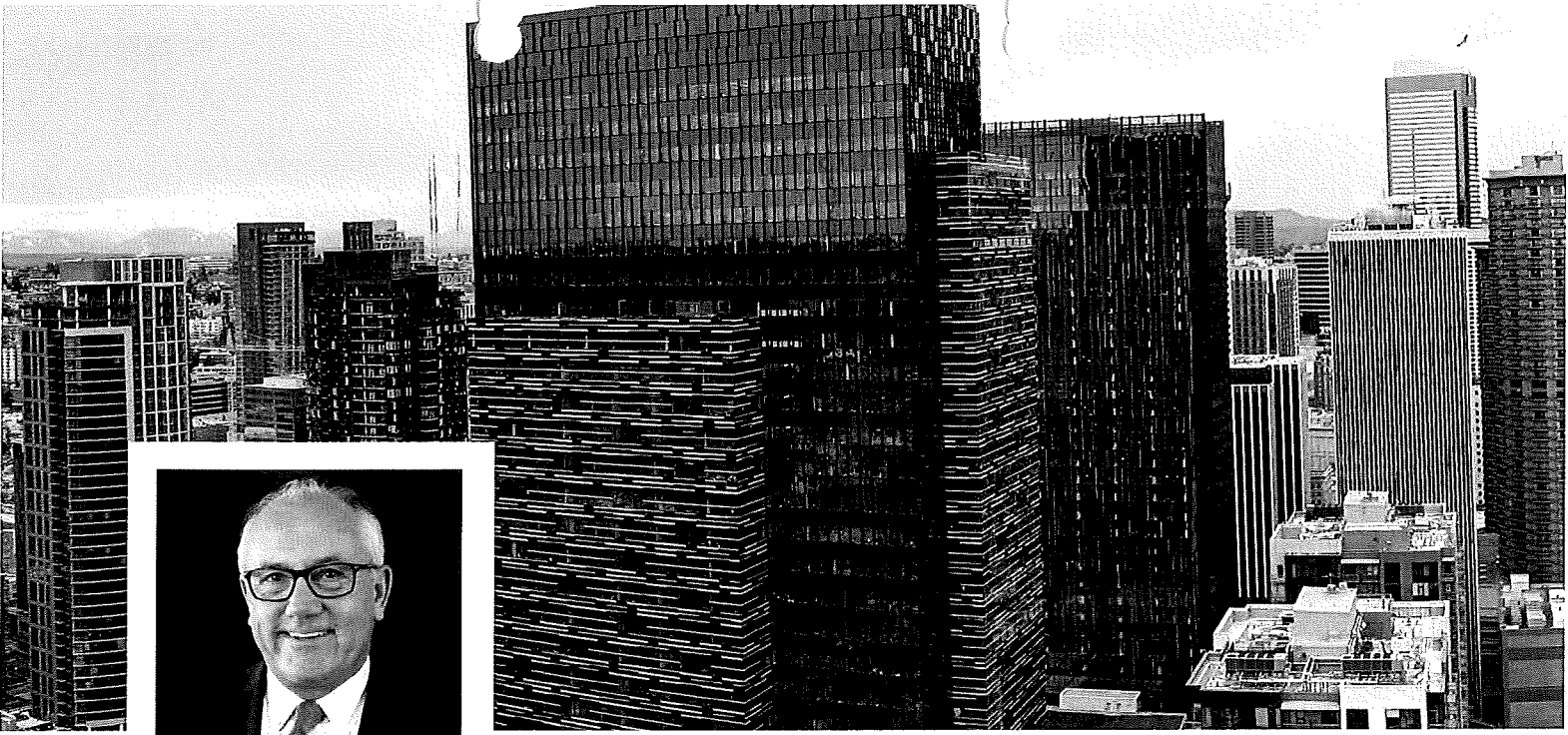
WE POWER *Seattle*



Seattle City Light



Strategic Plan
2019-2024



Letter from the General Manager

Visitors flying into the Seattle-Tacoma International Airport see a skyline dotted with cranes and new skyscrapers, lofty signals of the boom underway in the Seattle metropolitan area. New office space is being leased before construction is completed, and the proliferation of new dwellings can't keep up with housing demand. The greater Seattle area is experiencing unprecedented growth, and it is being driven largely by technological innovation.

Seattle City Light has a long history of providing energy to technological innovation. In 1905, we powered the first electric streetlights to illuminate the streets of Seattle. As technology evolved, we powered the first electric radios in Seattle, the first electric refrigerators and the first televisions. The course of human history has seen many technological innovations that made our lives better, and for more than a century City Light's power has made that technology run in the Seattle area.

City Light has proven its reliability, financial stability and ability to power progress for the region. In the next six years, we will redouble our efforts. Improvements to our infrastructure will make sure our system is reliable and ready to meet the needs of the community. A new rate path will keep the utility financially stable while still providing affordable electricity to our customers.

We will continue to lead the way as an innovator in conservation while implementing energy-efficient measures across our system that will greatly benefit our diverse customer base. We'll complete advanced metering installations and near completion of our streetlight conversions to energy-efficient LEDs. And this year, we'll energize a new substation—our first in thirty years—which will power the businesses and residences in Seattle's bustling urban core. These projects are only made possible with the support and tireless efforts of our robust workforce, whose innovative and collaborative spirit are the engine that moves us forward.

The Seattle area is growing and evolving, and so is City Light. As you read this Strategic Plan, you'll learn about our initiatives and our challenges. Given our long history of innovation and visionary action, we are confident we will successfully navigate not only the challenges we face today, but the challenges of the future. Like the greater Seattle area, we are reaching new heights. We power Seattle, and we're proud of it.

Jim Baggs
Interim General Manager and CEO



Table of Contents

Executive Summary	1
Introduction	3
The Path to the Plan	3
We Power Progress	5
Accomplishments of the 2013-2018 Strategic Plan	5
Metrics	8
We Power the Future.....	9
Our Strategic Priorities and Initiatives	9
We Power Financial Stability	17
Keeping Customer Bills Affordable and Stable.....	17
We Power Seattle	20
Appendices	
Financial Forecast	
Summary of Customer and Stakeholder Outreach	
Review Panel Recommendation Letter	

Executive Summary

The Seattle City Light 2019-2024 Strategic Plan establishes a path forward for making informed decisions to meet the current and future needs of Seattle City Light and its customers. The Strategic Plan identifies specific initiatives and the revenue needed to efficiently accomplish them.

As the first six-year planning cycle nears completion this year, City Light has the opportunity to take a fresh look at the landscape in which we operate. The City Light executive team led the utility's planning effort with input from the City Light Review Panel, City of Seattle leaders, community members, business leaders, customers, employees, and other key stakeholders. We see several challenges that will transform our business over the next decade.



New technologies are transforming how people use electricity.

Commercialization of energy technologies poses a potential risk to City Light. New options and products for controlling consumption, generating, and storing electricity will impact how customers interact with their local utility.

Retail energy consumption is declining.

Advances in energy efficiency have reduced consumer energy demand. Due in part to energy-efficient building codes and new technologies, today's multifamily units consume approximately half as much energy as older single-family homes.

Power supply assumptions are changing.

Low wholesale market prices coupled with rising costs of hydro operations are quickly eroding the market advantage afforded by City Light's hydroelectric resources.

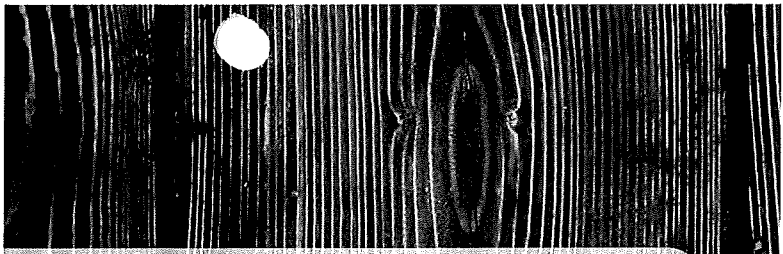
Impact of retirements and legacy practices.

As more employees become eligible for retirement and workflows are not documented or digitized, City Light risks the loss of institutional memory, costly service interruptions and a potential impact to service delivery.

Climate change continues and clean energy is more valuable than ever.

Weather pattern changes affect reservoir levels and seasonal energy consumption, leading to increasing volatility of energy supply and demand. Clean, renewable energy sources and uses protect our environment.

This plan lays the foundation for addressing the above challenges by undertaking a series of strategic and operational initiatives.



This Strategic Plan identifies four strategic priorities: customer service, affordability, clean energy and core utility business. The first three priorities are areas of strategic focus where City Light must make changes to respond to the industry challenges described earlier. The initiatives that support each of these priorities are new efforts but will be funded within existing budget and staffing levels. As we drive for change, we will not lose sight of our values and mission, which is why City Light's fourth priority is to continue to maintain and improve our core business.



PRIORITY 1: CUSTOMER SERVICE

Upgrade customer service practices to meet evolving customer needs and expectations.

- Modernize customer service



PRIORITY 2: AFFORDABILITY

Keep customers' bills affordable and stable by implementing strategies to control costs, capture new revenues, and restructure rates.

- Business Process Improvement
- Revenue Recovery and Rates
- Managing the Cost of Growth
- Evolving Energy Market



PRIORITY 3: CLEAN ENERGY

Deliver robust and innovative programs to promote the efficient use of clean energy and protect the shared ecosystem.

- Environmental Stewardship
- Clean, Renewable-Powered City



PRIORITY 4: CONTINUING PROGRESS ON OUR CORE BUSINESS

Invest in our infrastructure and workforce to provide a consistent level of service, reliability, and response.

Even though the Seattle area is growing rapidly, electricity consumption is not following suit. Downward-trending electricity consumption represents a tremendous victory for Seattle's energy conservation efforts. However, maintaining City Light's hydroelectric dams, wires, poles, and other infrastructure is very capital-intensive. These costs do not shrink when customers conserve energy. This Strategic Plan calls for rate increases to produce enough revenue to cover these rising costs, as well as compensate for customers' declining electricity use. The strategic plan proposes a six-year rate path that increases 4.5 percent annually on average for 2019-2024. Decreasing retail sales account for about one-third of the 2019 rate increase, and one percent of the 4.5 percent six-year average.

Annual Increase	2019	2020	2021	2022	2023	2024	Average
	5.8%	5.4%	3.6%	3.9%	4.0%	4.2%	4.5%

This plan affirms City Light's mission and values, explores the current environment and industry challenges, and recommends strategies for success. Given City Light's long history of innovation and visionary actions, we are confident we will successfully navigate the challenges as we create a utility of the future. As the Seattle area continues to grow, we stand ready to power our community for years to come.



Introduction

City Light's Strategic Plan was first approved by the City Council in 2012. The Strategic Plan covers six years but is updated every two years as new information becomes available. More than 30 programs were implemented as part of the 2013–2018 Strategic Plan. Highlights include upgrading generator equipment to add more clean, hydroelectric generating capacity to our system; installing new advanced meters that can communicate wirelessly; and identifying potential risks to City Light assets and operations associated with climate change.

This six-year plan provides a framework for making informed decisions about the future. It answers a fundamental question: How can Seattle City Light best meet and exceed customers' expectations in producing and delivering affordable, reliable, and environmentally responsible electricity services not only for the next six years, but for many years to come?

This plan affirms Seattle City Light's mission and values, takes stock of the current situation, analyzes future demand, outlines challenges, recommends a strategy for success, and explains the rate impacts.

Commitment to Equity

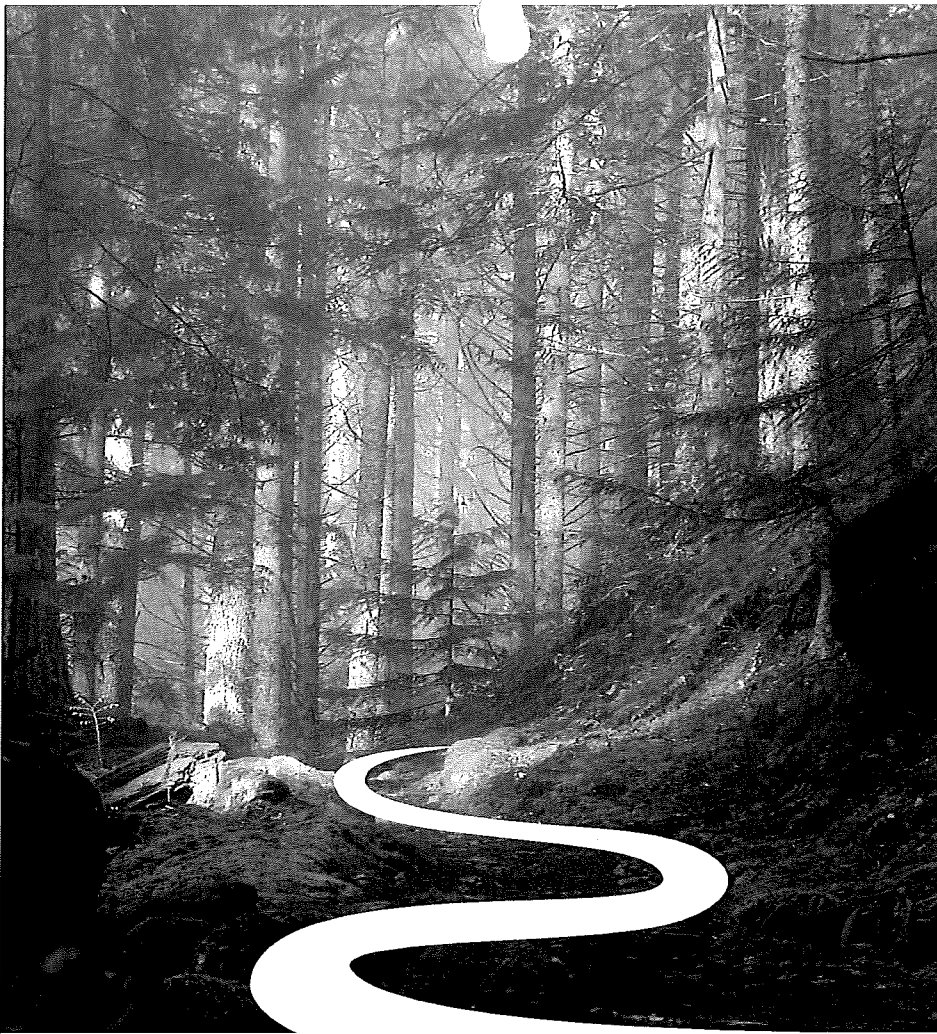
City Light is committed to building equity within our workforce, our communities, and our environment. Our work towards racial, economic and environmental justice is a demonstration of our core values. Accordingly, the programs and initiatives described in this plan intentionally align with this commitment. Examining our work, including the Strategic Plan, through an equity lens increases the utility's capacity to better serve all communities throughout our service territory.

The Path to the Plan

Since City Light's Strategic Plan was first approved by the City Council in 2012, the utility has continued to ensure its customers receive the highest possible level of service. The Strategic Plan, which is updated every two years, has proven to be beneficial towards creating organizational efficiencies and improving our delivery of electric services. As the first planning cycle nears completion this year, 2018 offers us the opportunity to take a fresh look at the landscape in which City Light operates.

This strategic planning process included five stages:

- 1 Developed a Strategic Framework (Jan.–Dec. 2017)**
 - Formed a cross-departmental Strategic Planning Team.
 - Conducted a strengths, weaknesses, opportunities and threats (SWOT) exercise with the City Light Executive Team, Review Panel and the internal Strategic Planning Team.
 - Developed priorities and strategic objectives.
 - Forecasted costs and rates.
 - Collaborated with the Strategic Planning Team.
 - Shared proposed initiatives with the Review Panel and Executive Team.
- 2 Conducted Stakeholder Outreach (Sept. 2017–Apr. 2018)**
 - Spearheaded an extensive market research survey: more than 1,600 responses were received.
 - Met with 330 stakeholders.
 - Included results from 2016 Current Culture employee survey in stakeholder input.



City Light Review Panel

Created in 2010 by City of Seattle Ordinance 123256, the City Light Review Panel is tasked with reviewing City Light's Strategic Plan and providing an opinion on its merits to the Mayor and City Council. The panel includes representatives from private, public and nonprofit sectors, utility experts, business leaders, and community representatives. For this Strategic Plan, the panel, along with representatives from the City Budget Office and City Council staff, met regularly to hear from City Light leaders about the plan and provided valuable input that helped shape this effort. A special thanks to our current panel members:

David Allen

Commercial Customer Representative

Thomas Buchanan

Residential Customer Representative

Leon Garnett

Low-Income Customer Representative

Patrick Jablonski P.E. (Vice Chair)

Industrial Customer Representative

Gail Labanara (Chair)

Suburban Franchise Representative

Sara Patton

Non-Profit Energy Efficiency Representative

John Putz

At-Large Customer Representative

Cal E. Shirley

Financial Analyst

Nina Sidneva

Economist

3 Developed a Strategy (Dec. 2017–March 2018)

- Refined initiatives based on outreach and financial baseline.

4 Shared Draft Plan and Sought Input (March 2018)

- Identified core themes: Customer Service, Affordability, Clean Energy and Continuing Progress on our Core Business.

5 Mayoral and City Council Approval (May–June 2018)

- Informed stakeholders of the Strategic Plan website.
- Translated materials into six languages for limited English proficiency (LEP) stakeholders.
- Delivered the Strategic Plan to the Office of the Mayor.
- Worked with the Review Panel as they continued to review and provide input on the Strategic Plan.



WE POWER Progress

Accomplishments of the 2013-2018 Strategic Plan

This plan marks the end of City Light's first six-year strategic planning cycle. More than 30 programs were implemented as part of the 2013-2018 Strategic Plan. The following are some of our key accomplishments.

Fewer Outages

Centralizing asset catalogs and workflows now makes maintenance more efficient. Combined with increased tree trimming and systematic pole replacement, we have reduced the risk of failures. When the power does go out, new automated switching technology helps our crews quickly locate the cause of outages, and web-based outage maps keep customers informed. These efforts have translated to customers experiencing 50 percent fewer power outages, and faster outage response.

Better Streetlights

Six years ago, streetlight outages were a major issue. The streetlight infrastructure replacement project replaced 867 aging, dysfunctional and/or damaged streetlight poles. This proactive replacement plan has improved safety, and reduced cost by eliminating the need for costly stop-gap repairs. All residential neighborhoods and most arterial roads are now illuminated by LED streetlights, improving light quality, minimizing outages, and saving millions of dollars in electricity and maintenance costs.

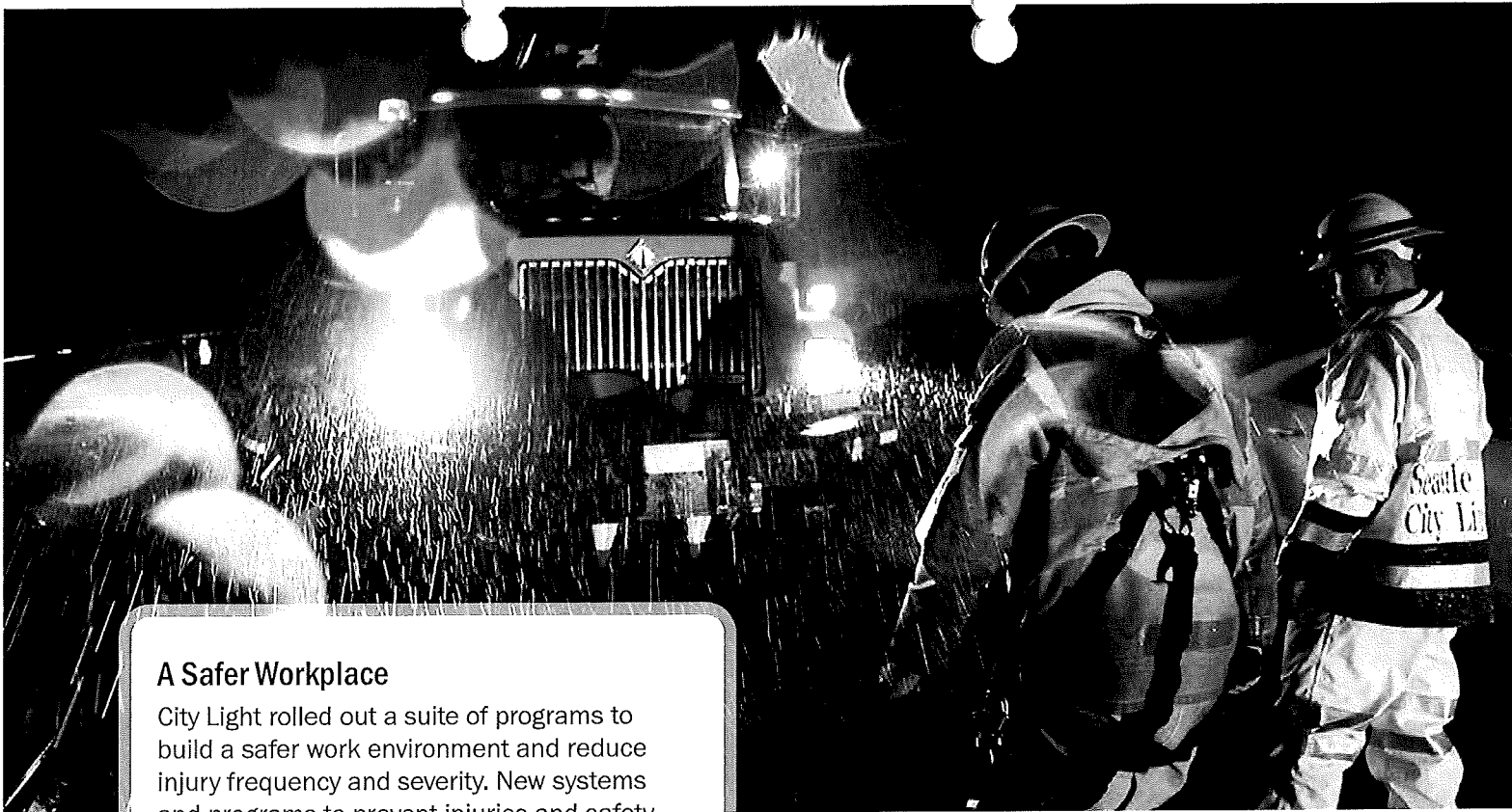


More Hydroelectric Power

Replacements and upgrades of generator equipment at the Boundary and Skagit Hydroelectric Projects added more than 100 megawatts (MW) of clean, hydroelectric generating capacity to our system. Our dams are unique and irreplaceable, and maintaining and modernizing the equipment inside keeps them in top shape to optimize their performance.

New Substation

The first substation City Light has built in 30 years, the new Denny Substation provides much-needed capacity to meet growth in the north downtown and surrounding neighborhoods. The benefits of this addition will cascade across the distribution system, improving the reliability of City Light's 15 other substations as well as the regional transmission grid. The substation will be energized in late 2018.



A Safer Workplace

City Light rolled out a suite of programs to build a safer work environment and reduce injury frequency and severity. New systems and programs to prevent injuries and safety campaigns to engage employees have shifted our corporate culture to one that is rooted in safety awareness. In the 10 years prior to the implementation of the safe work environment strategic initiative, the average number of recordable injuries was 145. Since 2013, the average number of recordable injuries dropped to 102, a 30 percent decrease.

Smarter Meters

We are installing new meters that can communicate wirelessly, meaning accurate meter reading, reduced operating costs and environmental footprint, as well as improved customer service. Also, the new metering technology will be a platform to support energy management tools that our technology-savvy customers are pursuing, like customer generation, electric vehicle charging, and home energy-management protocols. Implementation of advanced metering infrastructure began in 2014. As of December 2017, a total of 75,000 new meters were exchanged, and full deployment is targeted for the end of 2018.

Our First Climate Adaptation Plan

City Light's 2017 Climate Change Adaptation Plan identifies potential risks associated with climate change, assesses impacts on assets and operations, and charts a plan to mitigate those that are most critical. The plan addresses the potential effects of flooding, lower snowpack, higher temperatures, and increased wildfires and landslides. The plan looks at the impacts on infrastructure, hydroelectric operations, fisheries and habitat, and consumption patterns, and calls for proactive action such as adopting new land restoration practices, increased fire protection, and upgrades to infrastructure.



Seattle City Light has been greenhouse gas neutral since 2005.

Habitat Protection

The two main objectives of the Environmental Leadership Initiative are to promote long-term transmission reliability and improve habitat values on transmission line rights-of-way (ROW). Recent efforts focused on weed control and restoration of the Creston-Duwamish Transmission Line ROW. Participating community groups include Duwamish Alive, The Common Acre, EarthCorps, ECOSS, Forterra, Friends of Duwamish Hill, Alley-Cat Acres, and the Veterans Conservation Corps.

Innovative Conservation

Working with three commercial office buildings, City Light launched a new pilot program offering financial incentives for energy savings through ongoing payments, rather than a typical up-front incentive payout. In 2016, participants saved a total of approximately 3.1 million kilowatt hours, enough energy to power 420 Seattle residences for one year. These savings contributed to City Light's goals under the Energy Independence Act, which requires the utility to pursue all energy efficiency that is cost-effective, reliable and feasible.

Compliance Program Standardization

Security of the electric grid is a serious issue that continues to grow in complexity. National and regional organizations require City Light to meet more than 900 critical infrastructure protection and reliability standards requirements, with significant fines for non-compliance. Online systems that are being implemented now will manage workflows and automatically track compliance with these regulatory standards, saving time and money, and helping to ensure that City Light's grid remains secure and reliable.

A Better Prepared Workforce

City Light actively addressed the pending talent shortage due to retirements by enhancing our training opportunities and preparing employees to take advantage of promotional opportunities. All leaders participate in annual leadership training and the launch of a Learning Management System introduced online courses, which vastly increased the scope of the professional, technical and safety training offered to our employees. Our college and high school internship programs have grown and continue to provide a reliable pipeline for regular and temporary position recruiting.

POWERING EQUITY City Light's Commitment to Race & Social Justice

Seattle City Light takes its lead from the City-wide Race and Social Justice Initiative (RSJI) to end institutionalized racism in City government. Reaffirmed by Mayor Durkan's Executive Order 2017-13, and in partnership with the community, the Initiative works to change the underlying system that creates race-based disparities in our community and to achieve racial equity in City operations, public engagement and service. As a part of a municipality committed to inclusive public service, we consider race and social justice in all utility programs. Specifically, City Light focuses on understanding the unique needs of communities of color through research, data collection, and equity analysis; expanding opportunity through pipeline and workforce development; and broadening access through partnerships, contracts, outreach and engagement.

Workforce Development

Developing the next generation of utility employees.



2012		2017
55	Interns	103
30	Apprentices	57
29%	Internal Promotions	67%

Metrics

The Strategic Plan is results-focused and provides tangible benefits for customers and the community. The performance metrics that were developed to track our progress provide clear, quantifiable proof of the strides we have made and show investing the time and money needed has paid off. Here are a few examples of our successes.

Reliability	TARGET 2012	2012	2013	2014	2015	2016	2017
Outage Duration: SAIDI¹	65.1	69.0	68.7	69.7	62.3	61.0	64.5
Outage Frequency: SAIFI²	0.9	1.0	0.9	0.9	0.5	0.5	0.4
Streetlights Converted to LED	100%	41%	49%	56%	64%	72%	81%

Social Justice	TARGET 2012	2012	2013	2014	2015	2016	2017
Utility Discount Program Participants	16,000 by 2014	13,415	14,000	16,941	20,229	28,000	33,000
Purchases from Women & Minority Business Enterprise	\$9.6m	\$11.5m	\$18.3m	\$14.6m	\$17.7m	\$15.2m	\$14.0m

Finance	TARGET 2012	2012	2013	2014	2015	2016	2017
Debt Service Coverage³	1.80	1.81	1.85	1.86	1.62	1.69	1.85

Clean Energy & Environmental Leadership	TARGET 2012	2012	2013	2014	2015	2016	2017
Energy Efficiency Incremental Average Megawatts (aMW)	14.0	13.0	14.7	16.0	15.8	14.0	15.4
Solar Installations Cumulative Megawatts	N/A	4.0	6.0	8.0	13.0	16.3	20.0
Fish & Wildlife Habitat Total Acres Acquired Each Year	N/A	118.3	250.6	251.8	248.2	90.0	168.6

¹System Average Interruption Duration Index, the sum of all interruption durations divided by number of customers served.

²System Average Interruption Frequency Index, the total number of customer interruptions divided by number of customers served.

³A measure of financial health – extent to which cash generated by operations is available to pay principal and interest on debt.



WE POWER the Future

Our Strategic Priorities and Initiatives

City Light began planning for the 2019-2024 strategic planning cycle by researching industry trends, gathering data from our employees, stakeholders, and customers, and then analyzing the results to understand the themes that emerged.

What emerged is that many aspects of our operations are longstanding, and some past areas of strategic focus still need attention. At the same time, there are new factors that are changing Seattle and transforming the utility landscape. These changes bring challenges, as well as opportunities.

First, new technologies are transforming how people use electricity. More efficient buildings, appliances and lighting mean households and businesses use less electricity. Even with Seattle's recent growth, City Light's sales of electricity have been flat to downward-trending. City Light's electric rates depend on electricity consumption to generate revenues, and so lower customer usage translates to revenue shortages. Declining electricity consumption, revenue recovery, and rate reform are pressing issues for utilities across the country.

At the same time, the revenues from surplus energy sales that have long helped keep our customer rates low are dwindling. Low wholesale market prices coupled with rising costs of hydro operations are quickly eroding the market advantage afforded by City Light's hydroelectric resources.

Our stakeholder outreach showed that even though cost is a concern, customers still want cleaner, greener energy solutions. Seattle area residents expect City Light to lead the charge to source renewable energy, reduce carbon

emissions, and remove contaminants from our system.

Technology is also impacting the service side of our business. Customer expectations and our service delivery model are evolving. For example, meter readers and customer hotline phone banks are quickly becoming obsolete, replaced by wireless networks and the internet of things.

Around us, new energy-related businesses are cropping up: "smart energy" start-ups, energy data management services, alternative energy providers, and others. We know that if City Light cannot deliver the kind of value and services customers expect, they will look elsewhere. To ensure affordable and equitable access to electric service, City Light needs to update our business model, build partnerships, and develop future-minded policies and programs so that we can remain relevant to diverse and evolving customer interests.

To respond to these challenges, City Light has identified three strategic priorities: customer service, affordability and clean energy. The initiatives that support each of these priorities are new efforts but will be funded within existing budget and staffing levels.

As we drive for change, we will not lose sight of our values and mission, which is why the fourth strategic priority is to continue maintaining and improving our core business. We must continue to make investments in our people and our infrastructure. As we have in past years, we will nurture a culture of safety first, develop our workforce, enhance grid security, maintain our legacy generation assets, and advance social justice.



Priority 1: Customer Service

Challenge: Customer service has evolved beyond the 9-to-5 business hours customer hotline. Customers today expect web, social media, mobile technology, and other 24/7 options. Great customer service also means recognizing that not all customers want the same thing—some want a highly digital customer interaction, while others prefer to speak to a real person. City Light needs systems and services in place to stay on pace with trends and customer expectations, and to provide service equitably to all our customers.

Providing busy customers great service, at any time, by the method they want, is at the forefront of the new customer service strategy. Based on best practice research from well-respected industry leaders like J.D. Power and Associates and the Electric Power Research Institute, City Light has a plan to transform its transactional-focused customer service model to one that cultivates relationships supported by digital technology.

Objective: Meet evolving customer needs and expectations and make significant improvements to customer service.

Initiative: Modernize Customer Service

Upgrade customer service practices to meet evolving customer needs and expectations.

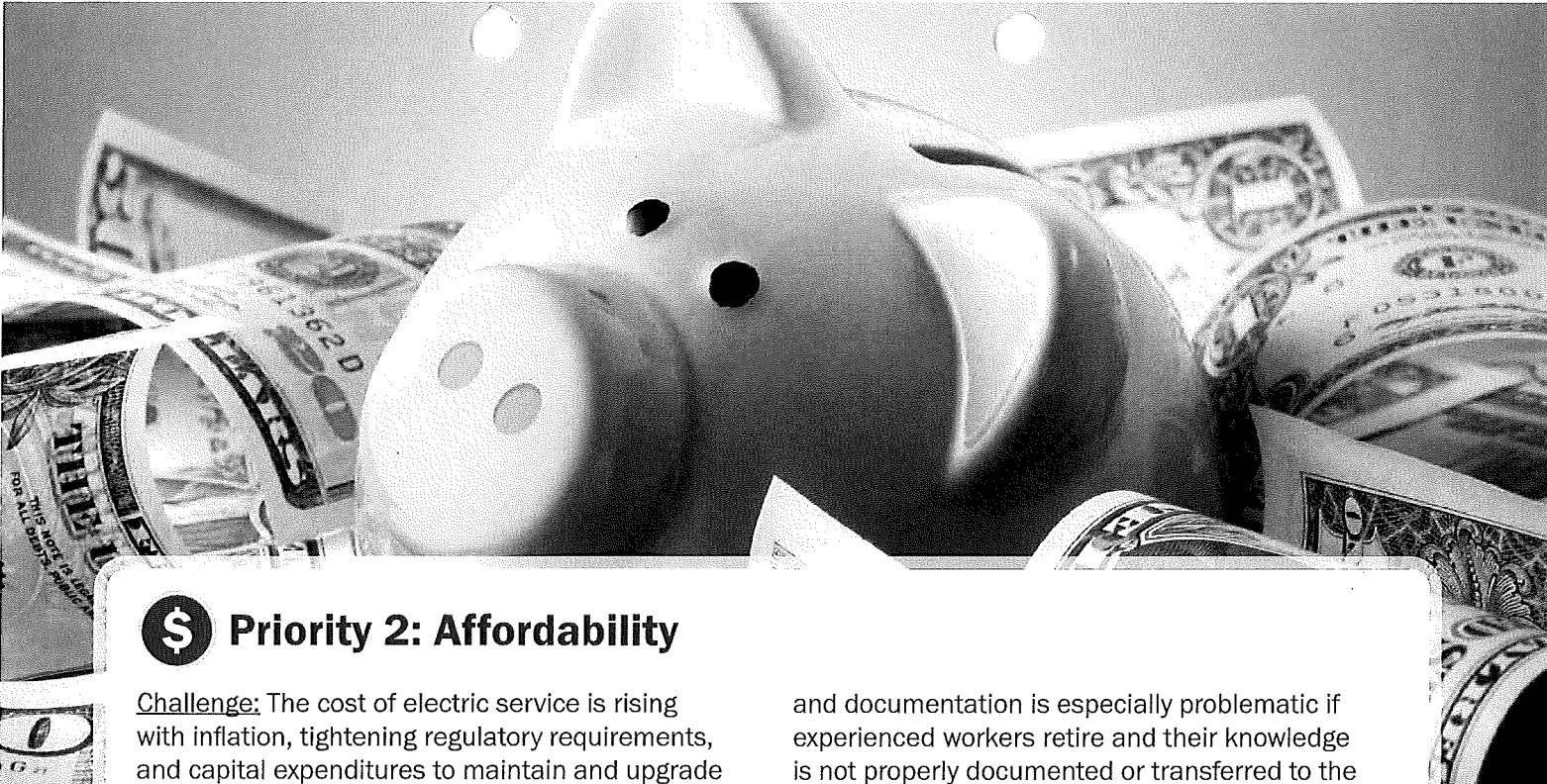
This initiative comprises a set of programs that will provide multi-channel opportunities for customer connections, as well as full access to information and support from City Light. Components of the initiative include:

- Expansion of customer communication to social media, web chat, and mobile technology.
- A full-service after-hours and weekend customer service team.
- Increasing options for customer self-service with an enhanced digital customer experience platform.
- Setting up a Commercial Customer Service Center to better serve small to mid-size businesses.

These programs will allow City Light to improve the customer experience by approaching customer service from their perspective – providing personalized and convenient access to their accounts, data and status updates on projects, and expanded customer service options available to all customer groups.



Lineworkers prepare to install an automated switch in Shoreline.



\$ Priority 2: Affordability

Challenge: The cost of electric service is rising with inflation, tightening regulatory requirements, and capital expenditures to maintain and upgrade infrastructure. Retail consumption is declining as customers become more efficient, and revenues are shrinking. The net result of these factors is persistent pressure to raise customer rates.

To continue to deliver good value, we must work to provide our customers with affordable rates and stable bills. We will achieve this through a combination of controlling costs, innovating to capture new sources of revenue, and updating the way we charge for services.

Objective: Keep customers' bills affordable and stable by implementing strategies to control costs, capture new revenues and restructure rates.

The key activities to meet this objective are:

Initiative: Business Process Improvement

Cultivate a sustainable, enterprise-wide process improvement program.

Many of the utility's operational processes are individually knowledge-based and are not standardized or documented. This makes it difficult to verify that procedures are uniform and that the service delivered to customers is consistent and high quality. This lack of consistency

and documentation is especially problematic if experienced workers retire and their knowledge is not properly documented or transferred to the employees taking their place. About half of our staff is eligible for retirement, making it imperative that City Light address this issue now to avoid costly service interruptions in the future.

This initiative proposes that City Light cultivate a sustainable, enterprise-wide process improvement program. City Light will use best practice, data-driven methods such as "Lean" and "Kaizen" to improve business process capabilities. The expected benefits from this program include enhanced service delivery, increased value to our customers, reduced operational costs, and optimization of internal resources.

As part of an ongoing commitment to cost control and fiscal accountability, this Strategic Plan also includes substantial, permanent reductions to both capital (CIP) and operating (O&M) budgets. Capital spending reductions will total \$240 million over the six-year plan—a nine percent reduction. The O&M budget will be reduced by six percent beginning with \$18 million in 2019 and increasing with inflation to over \$20 million in 2024. Budget reductions will be carefully managed to minimize future service impacts and financial risk through a rigorous capital prioritization framework, budget review, and monitoring of performance metrics.

Initiative: Revenue Recovery & Rates

Create new rate policies and structures that progressively respond to industry changes and challenges.

Energy consumption is declining, contributing to under-collection of revenue and persistent rate pressure. One contributing issue is that City Light's rate structure does not match our cost structure: current rates mainly charge per unit of energy consumed, but most of our costs are fixed and do not decline when customers consume less electricity.

Rates are updated every year, but City Light's fundamental rate structures have not changed in decades. The goals of the initiative are to develop new rate policies and revise the structure of customer electric rates. New rate structures would separate energy charges from delivery and other fees for service. Having rates that reflect our costs will make customer utility bills more informative, will improve utility revenue recovery, and position City Light to better support evolving customer expectations.

Updated rate policies could improve revenue stability, create new service options, and better target cost recovery, which would reduce the rate burden for some or all customers. City Light will study customer classification, special rates for premium services and metering options, and identify policy improvement opportunities.

Initiative: Managing the Cost of Growth

Audit current fees and charges for customer-initiated construction services and amend policies and charges.

City Light's service territory is growing rapidly, adding thousands of service connections each year. Customer-driven requests and system expansion represent a significant capital cost. This initiative will look at system expansion, customer connections and other capital expenditures driven by regional growth and customer needs for new capacity. A comparison of these costs with the revenues from

fees for these services will inform any needed changes in policy, procedures, and charges. This work will also examine what City Light can do to minimize costs of urban growth and ensure developers are reimbursing the utility appropriately.

Initiative: Evolving Energy Market

Pursue new opportunities for cost savings or incremental revenue in wholesale market operations.

Rapid growth in renewable wind and solar generation coupled with an unprecedented surplus in natural gas inventory has plunged energy prices to historic lows. City Light's hydroelectric and other resources typically produce a surplus of electricity and, historically, revenues from these excess energy sales have helped keep our customer rates low. However, low wholesale energy prices have reduced this benefit.

New renewable resources are also intermittent and unpredictable, which means fundamental changes and new opportunities in wholesale power markets. This initiative aims to revise power marketing and risk management practices to capture opportunities presented by evolving power markets and deliver additional value from City Light's existing resource portfolio.

As part of this initiative, City Light will move ahead with joining the Western Energy Imbalance Market (WEIM). The WEIM allows buying and selling energy in shorter-term increments and uses pricing models to match loads and resources across more buyers and sellers than existing markets currently permit. This will allow City Light to more efficiently use our generation and transmission assets and monetize their intrinsic flexibility and environmental quality. Also, power trading policies and procedures will be evaluated to identify opportunities for prudent flexibility that may increase wholesale revenue opportunities. In addition to pursuing incremental market revenues, this initiative also aims to equip City Light's wholesale operations team with new tools and expertise to successfully navigate anticipated changes in regional energy markets.



Priority 3: Clean Energy

Challenge: People are not only using less electricity, they are using it differently. New lighting (LEDs), appliance efficiency, heating and ventilation systems, industrial processes and other similar innovations are allowing customers to reduce their electricity use. Electric-powered transportation is on the rise. With solar panels and battery technology, there is growing interest in customers generating and even storing their own electricity. Entrepreneurs see opportunity in the energy industry, and new companies are offering various energy services.

As Seattle’s not-for-profit electricity supplier and steward of the local electric grid, City Light must determine our role in helping our customers navigate these new options. We will find ways to leverage our expertise to encourage action that will reduce carbon emissions and combat climate change. And as we push for adoption of green technology, we must ensure that our policies and programs are equitable and do not inadvertently burden customers who cannot afford to take advantage of them.

Objective: Deliver robust and innovative programs to promote the efficient use of clean energy and protect the shared ecosystem.

The key activities to meet this objective are:

Initiative: Environmental Stewardship

Continue our industry leadership in improving the protection of the ecosystems in which we operate.

City Light will implement our Climate Change Adaptation Plan, emphasizing distribution grid resilience. Our climate resiliency work also extends to protecting our habitat lands from the effects of climate change. In partnership with the Mountains to Sound Greenway Trust, we will continue implementation of a pilot program to reforest areas in the Tolt River Watershed to be more resilient to climate change. Instead of only using native varieties, this pilot will plant trees sourced from southwestern Oregon that are better adapted to warmer temperatures and drier climates. The long-term goal of the reforestation effort is to establish a diverse forest that will be adapted to the climate of the mid to late 21st century. City Light will also continue the elimination of polychlorinated biphenyls (PCBs) from our system. Finally, this initiative continues our Environmental Equity Program, which proactively manages the external impacts of City Light’s construction and environmental processes on people of color and underserved communities.

POWERING EQUITY

City Light’s Commitment to Environmental Equity

City Light’s Environmental Equity Program advances social equity, environmental justice, and action on behalf of those most affected by environmental issues. The program supports the City’s larger Equity and Environment Initiative, which is managed by the Seattle Office of Sustainability and Environment. City of Seattle Resolution 31447, which adopted the 2013 Seattle Climate Action Plan, calls for carbon neutrality and equity in environmental programs.

A key principle underpinning the Environmental Equity Program is the recognition that people of color, immigrants and refugees, people with low income and individuals with limited English proficiency tend to be overburdened by health impacts from pollution and environmental issues. The Environmental Equity Program addresses this disparity by inviting communities most affected by environmental inequities to participate in City Light’s environmental decision making and program design. Together with community partners, the City is creating environmental progress that is inclusive of the broad diversity of residents and cultures in Seattle and neighboring communities.

Initiative: Clean, Renewable-Powered City

Deliver innovative and forward-thinking programs that promote clean energy solutions.

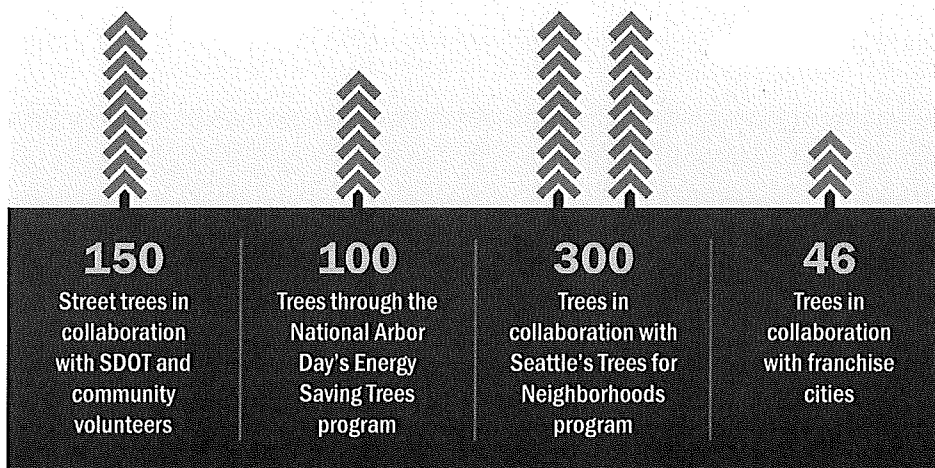
City Light strives to be our customers' most valued and trusted energy management partner. We will work with our customers and community partners to increase the energy productivity of buildings, equipment and transportation, preserving and extending the benefits of our low-cost, carbon-neutral electricity system.

Components of this initiative reflect a goal to expand into new markets while ensuring that our core energy efficiency business is successful beyond a reliance on lighting projects. Programs include:

- Expansion of whole building energy efficiency programs such as Pay for Performance and Energy Efficiency as a Service (EEaS) to increase energy savings in commercial buildings.
- Install and operate electric vehicle charging stations and build partnerships to provide customers with electric vehicles increased access to carbon-neutral electricity.
- Expand City Light's Lighting Design Lab to provide a broader offering of education, technical support and technology validation services to designers, building operators and contractors.
- Participate in the Office of Sustainability and Environment's 100% Equitable and Renewable Energy program. This is a platform to test new approaches and strategies to narrow the gap between communities that have benefited from our programs and those who have not, while making progress on the Seattle Climate Action Plan.

Planting Trees Throughout Our Service Area

In 2017, Seattle City Light planted:



Priority 4: Continuing Progress on Our Core Business

As we drive for change, we will not lose sight of our core values and mission to provide affordable, reliable, environmentally-responsible electricity. To provide today's level of programs, reliability and response, City Light must make ongoing business improvements and investments. Many of the efforts in this section were major areas of focus in previous strategic plans, and while we have made significant progress in these areas over the last six years, the work must continue.

High-Performance Workforce

Attract, train and retain a workforce with the skills and knowledge needed for hydro-powered electric utility operations. Continue building a comprehensive succession planning program that includes knowledge transfer strategies. Create skilled trades and highly specialized employee pipelines, in partnership with diverse community organizations and educational institutions.

Strong Safety Culture

Safety continues to be paramount in every facet of City Light's work. The Safe Work Environment program will continue, and other industry best practices will be implemented, such as a safety, health and wellness roadmap, grassroots safety teams, and a robust safety recognition program.

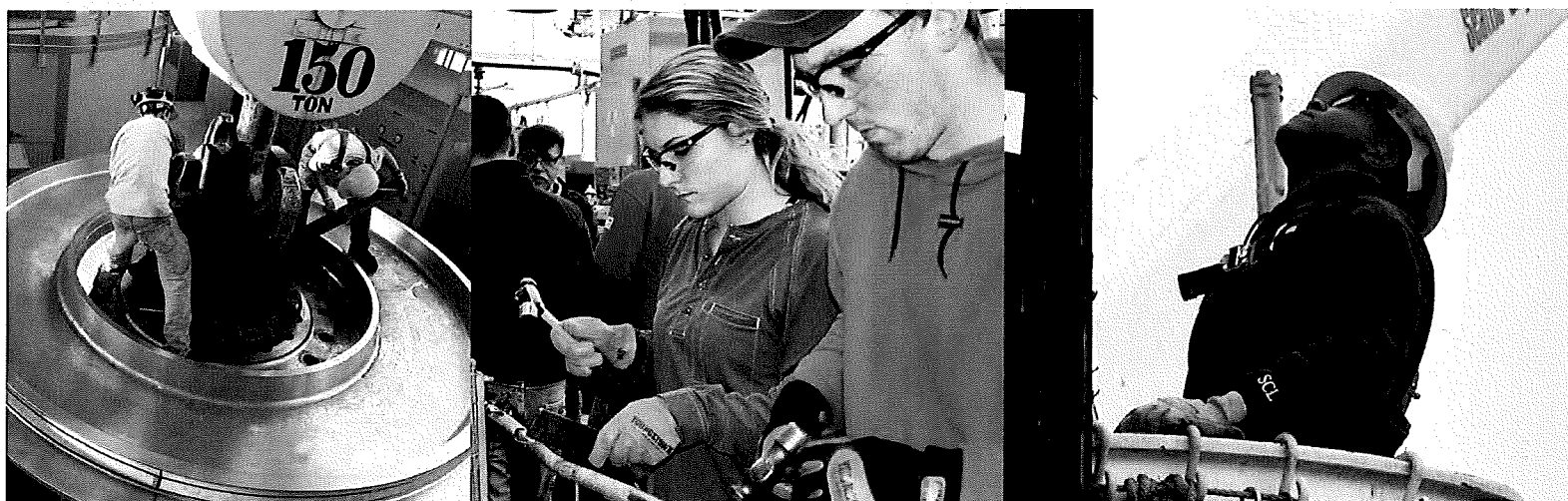
Secure, Resilient Work Environment

Implement best practices to enhance security, emergency preparedness and disaster recovery programs while improving the resiliency of facilities and services.

POWERING EQUITY

City Light's Commitment to Building a Diverse Workforce

City Light is committed to employing a workforce that is reflective of the diverse communities it serves. To achieve this result, City Light invests in pipeline building workforce initiatives including our high school and college internship program and the City Light Apprenticeship Program. City Light employs approximately 100 interns per year and utilizes the apprenticeship program to maintain a constant pipeline of journey-level workers across all trades. Each of these programs actively recruits communities of color and women.



Preserve Hydroelectric Generation Assets

Maintain our hydroelectric generation assets through prudent and systematic investment and maintenance. Planned enhancements include dam safety, outage management processes, and long-term planning. Specific efforts include:

- Long-term planning for small legacy hydroelectric projects such as Cedar Falls.
- Improve ancillary systems and facilities including powerhouse systems.
- Boundary Master Plan and Skagit Master Plan facilities improvement plans.

Relicensing

Acquire new federal licenses to continue to operate three City Light hydroelectric projects: Skagit, Newhalem, and South Fork Tolt. License renewal applications for these projects will be filed in 2023, 2025, and 2027, respectively.

Enhanced Grid Performance & Cybersecurity

As the criticality of the grid has increased and as customers have added new distributed resources, utilities have been improving their operational technology (OT) infrastructure. Also, protection of the electrical grid from cyber threats continues to be a challenging problem. City Light is responding by continuing to upgrade our OT infrastructure and energy grid to protect against cybersecurity risks and improve power grid operations.

Preserve Transmission & Distribution Infrastructure

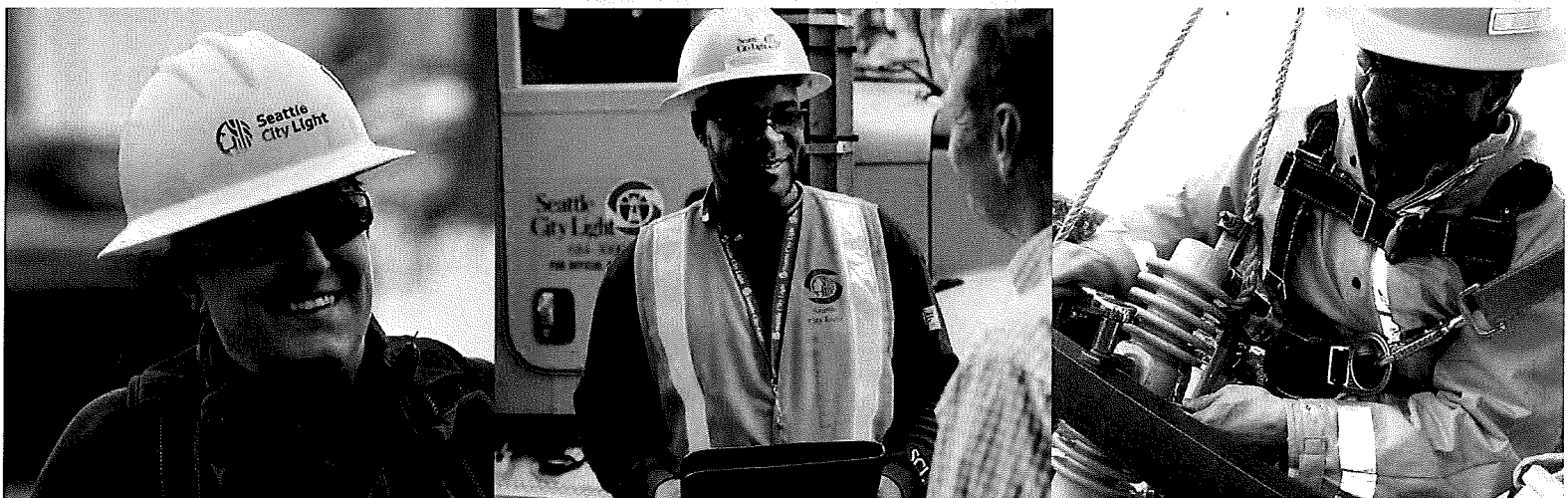
Implement industry best practice system improvements through prudent investment and maintenance. Planned enhancements to improve reliability include new technologies such as smart grid and advanced grid analytics, as well as a focus on long-term planning. Specific efforts include:

- Implement metric driven, cost-benefit analysis supported planning for transmission, substation and distribution projects.
- Develop corporate asset data management procedures and maximize benefits derived from our asset management capabilities.

Reliability for a Growing City

Various investments to maintain and upgrade the transmission and distribution systems will improve reliability and ensure City Light has enough capacity to serve our growing city. Specific efforts include:

- Relocate wires and other facilities underground to accommodate massive changes along the downtown waterfront.
- Add capacity for the expanding University of Washington and new Sound Transit light rail.
- Adjust electrical grid operations to realize system-wide benefits from the new Denny substation.
- Replace failing underground wires to bring them up to modern standards.



WE POWER Financial Stability

Keeping Customer Bills Affordable and Stable

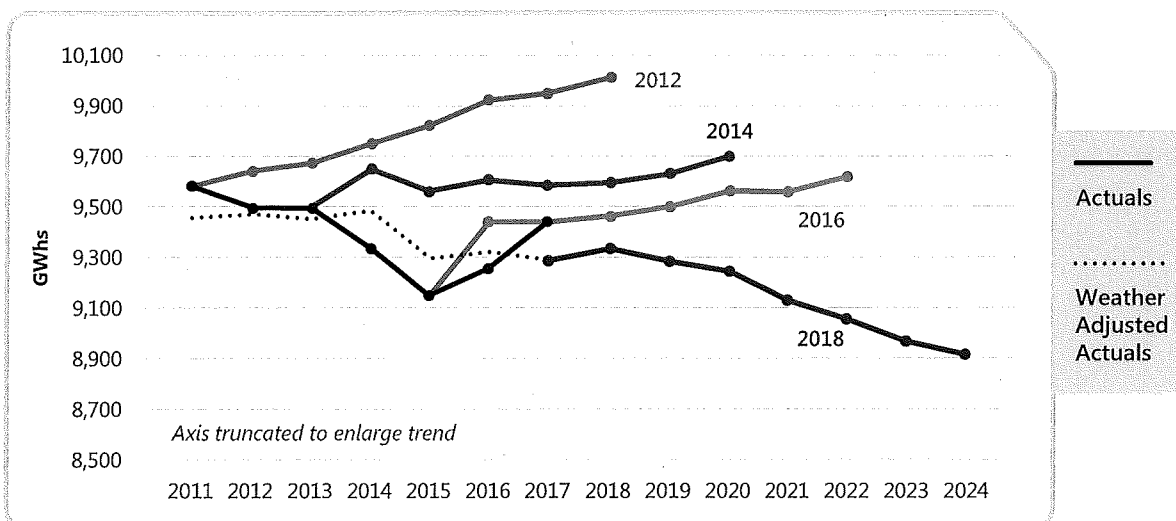
Even though the Seattle area is experiencing a construction and population boom, customer electricity consumption is not following suit. Instead, due to energy efficiency programs and policy successes, consumption continues to decline, creating revenue challenges for City Light.

Revenue Challenges

City Light recommends electric rates designed to collect the amount of revenue needed to implement the Strategic Plan programs and investments and maintain existing and planned operations. Our rates are primarily volumetric per-kilowatt-hour charges. Therefore, if customers use less electricity the utility collects less revenue. In four of the last five years, City Light over-forecasted customer electricity use, resulting in over \$100 million in approved costs not being recovered from our customers.

As recommended in the last Strategic Plan update, we studied this emerging issue, engaging outside consultants and looking closely at customer data and trends. What the utility learned is that while weather—warm winters in 2015 and 2016, and a very cold winter in 2017—was a contributing factor, the main drivers of low electricity consumption were major advancements in energy technology. LED lighting, new efficient appliances, better insulation, less expensive solar panels and other opportunities to invest in conservation—all of which are incentivized by City Light policies and programs—are contributing to customers saving energy and reducing their utility bills at a faster rate than planned.

Strategic Plan Retail Sales Forecast



New Forecast

In 2017, City Light built a new retail sales forecast model that incorporates new codes and standards, new technologies like LEDs, solar panels, and electric vehicles and other relevant factors such as climate change. The new forecast projects that Seattle’s electricity use will continue to decrease in the coming years.

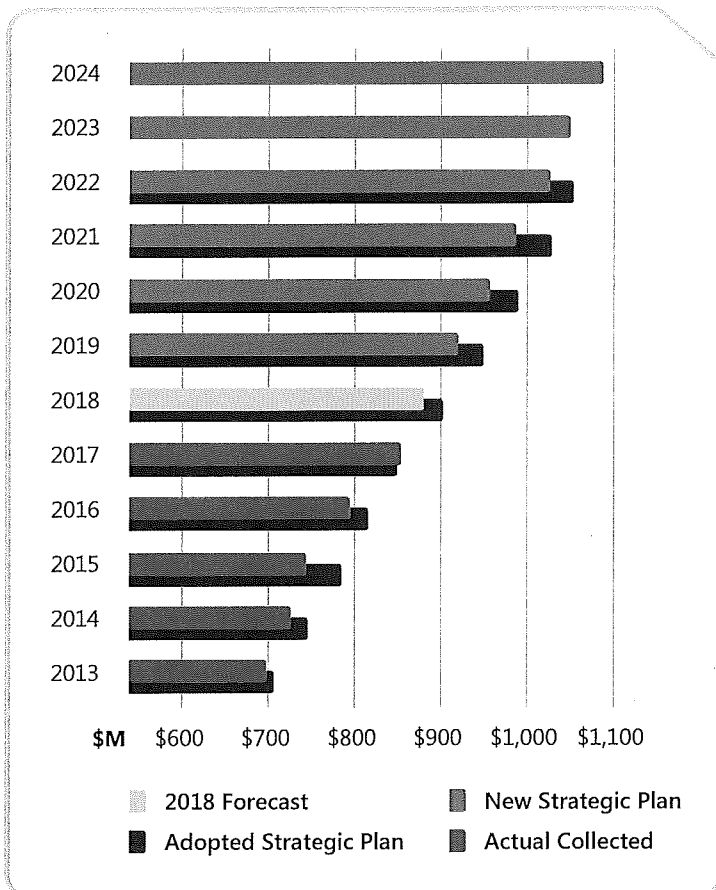
Downward-trending electricity consumption represents a tremendous victory for Seattle’s conservation efforts. Since the 1970s, City leaders have pushed towards this goal, and for the past 50 years, City Light has aggressively pursued conservation instead of acquisition of new energy resources.

A financial side effect of Seattle’s conservation success is rate pressure. Maintaining City Light’s hydroelectric dams, wires, poles and other infrastructure is very capital intensive. These costs do not shrink when customers conserve energy. Instead, a growing metropolitan area, new safety and security requirements, state mandates like I-937 (renewable portfolio standard), as well as inflation of costs like labor, raw materials, and construction services, contribute to increasing City Light’s costs of operation each year.

To limit cost increases to our customers, City Light will reduce capital spending by \$240 million over the six-year strategic planning horizon—a nine percent reduction. The O&M budget will be reduced by six percent beginning with \$18 million in 2019 and increasing with inflation to over \$20 million in 2024. This will result in lower retail rates than would otherwise occur.

This Strategic Plan calls for rate increases to produce enough revenue to cover rising costs, as well as compensate for customers’ declining electricity use. It is worth noting that even though revenue needs are rising, the rate of increase in this new plan is less than the level of the current plan.

Retail Revenue Authorized by Strategic Plan (Actual & Forecast)



POWERING EQUITY

City Light’s Commitment to Customer Assistance

Utility Discount Program Expansion

City Light’s Utility Discount Program (UDP) is one of the most substantial income-qualified assistance programs in the country, with a 60 percent discount on electric bills. City Light continues its efforts to assist customers who have difficulty paying their bills by increasing enrollment in this program. At the end of 2017, there were approximately 33,000 customers enrolled in UDP.

Emergency Low Income Assistance Program

City Light offers its own program for customers who have received an “Urgent” or “Shut-Off” notice on balances that equal \$250 or more. The Emergency Low-Income Assistance Program (ELIA) offers up to \$200 every 12 months for customers who make the minimum payment to avoid disconnection and payment arrangements for the balance. This program is funded with ratepayer dollars.

Project Share

Project Share’s one-time emergency assistance grants are funded by donations from City Light employees, customers, and other supporters. This tax-deductible donation disburses funds to those in need. Project Share participants can specify an amount to be added to their regular electric bills or make a one-time donation.

Rate Path

The Strategic Plan proposes a six-year rate path that increases 4.5 percent annually on average for 2019–2024. Decreasing retail sales account for about one-third of the 2019 rate increase, and one percent of the 4.5 percent six-year average. This average annual increase equals \$3.26 per month or \$39.12 per year for a typical residential customer.

Monthly Bill Increases	2019	2020	2021	2022	2023	2024	Average
Annual Increase ¹	5.8%	5.4%	3.6%	3.9%	4.0%	4.2%	4.5%
Typical Residential Bill (\$65)	\$3.77	\$3.72	\$2.63	\$2.93	\$3.12	\$3.42	\$3.26
Typical UDP ² Residential Bill (60% off)	\$1.51	\$1.49	\$1.05	\$1.17	\$1.25	\$1.37	\$1.31
Small Commercial (Coffee Shop)	\$42	\$41	\$29	\$33	\$35	\$38	\$36
Medium Commercial (Grocery)	\$951	\$938	\$663	\$740	\$787	\$863	\$824
Large Industrial (Metals)	\$92,279	\$91,031	\$64,382	\$71,831	\$76,407	\$83,745	\$79,946
Large Commercial (Education)	\$103,630	\$102,228	\$72,302	\$80,666	\$85,806	\$94,046	\$89,780

¹The bill impacts shown in this table assume that all customer bills increase by the percentage increase shown here. Actual bill impacts will reflect allocated cost of service and rate design, which may result in different increases.

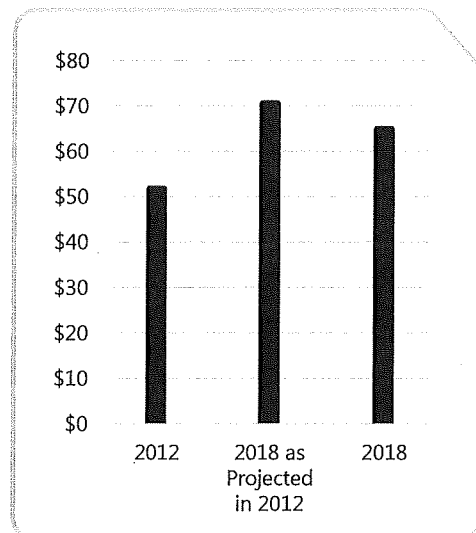
²Denotes Utility Discount Program (UDP) participant. The UDP offers eligible customers a 60 percent discount on their City Light bill. UDP is available for income-qualified residential households.

The dollar impacts shown in the table above assume a customer’s electricity use will stay constant over the next six years, which may not be the case. Six years ago, City Light projected that by 2018 an average residential customer’s bill would be \$18 more per month, increasing from \$53 to \$71. However, the average residential customer’s use has declined seven percent over the past six years, so that in 2018 a typical residential bill is about \$65, an increase of about four percent per year.

City Light projects that customers will continue to lower their electricity use and this will soften the impact of rate increases on their electricity bills.

For more detailed information please see the Financial Forecast in the appendix.

Typical Residential Monthly Bill



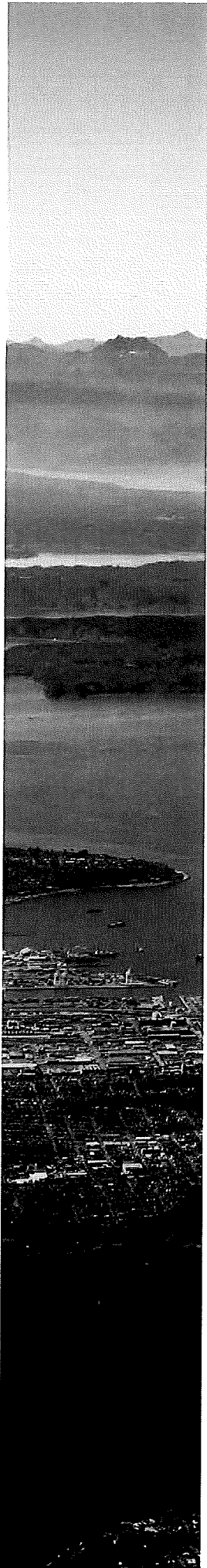


WE POWER Seattle

This Strategic Plan builds on past innovations and accomplishments, while looking forward to a powerful future. To respond to industry challenges, City Light has identified three strategic priorities: customer service, affordability, and clean energy. In addition, a fourth strategic priority reinforces our commitment to continued progress on our core business. The 2019 – 2024 Strategic Plan positions City Light to fulfill its promise of delivering customers affordable, reliable and environmentally responsible electricity services. We stand ready to power our community for years to come.

We power the future. We power Seattle.





Seattle City Light

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2019-2024 Strategic Plan Financial Forecast

EXECUTIVE SUMMARY

This document details the financial assumptions behind the 4.5% average rate path established by the 2019-2024 Strategic Plan.

Average rates are derived by dividing the revenue requirement by retail sales. The primary driver for rates is the growing revenue requirement, which is increasing by a little over \$30M per year on average. However, declining volume of retail sales is also a factor contributing to increased rates.

RATE INCREASE SUMMARY

	2018*	2019	2020	2021	2022	2023	2024	Avg
Revenue Requirement	888.3	922.7	967.5	990.2	1,019.6	1,051.1	1,089.1	
Annual Increase		3.9%	4.9%	2.3%	3.0%	3.1%	3.6%	3.5%
Retail Sales GWh	9,456	9,279	9,230	9,116	9,034	8,955	8,903	
Annual Change		-1.9%	-0.5%	-1.2%	-0.9%	-0.9%	-0.6%	-1.0%
Average Rate, ¢/kWh	9.40	9.94	10.48	10.86	11.29	11.74	12.23	
Annual Increase		5.8%	5.4%	3.6%	3.9%	4.0%	4.2%	4.5%

**The 2018 revenue requirement is the 2018 adopted revenue requirement of \$902.1M adjusted downward for the impacts of the 2017 BPA Passthrough, which also reduces the 2018 average rate. 2018 retail sales GWh are the forecasted sales used to set the 2018 adopted rates. The 2018 average rate is based on current 2018 rates and consumption profiles based on the most recent retail sales forecast.*

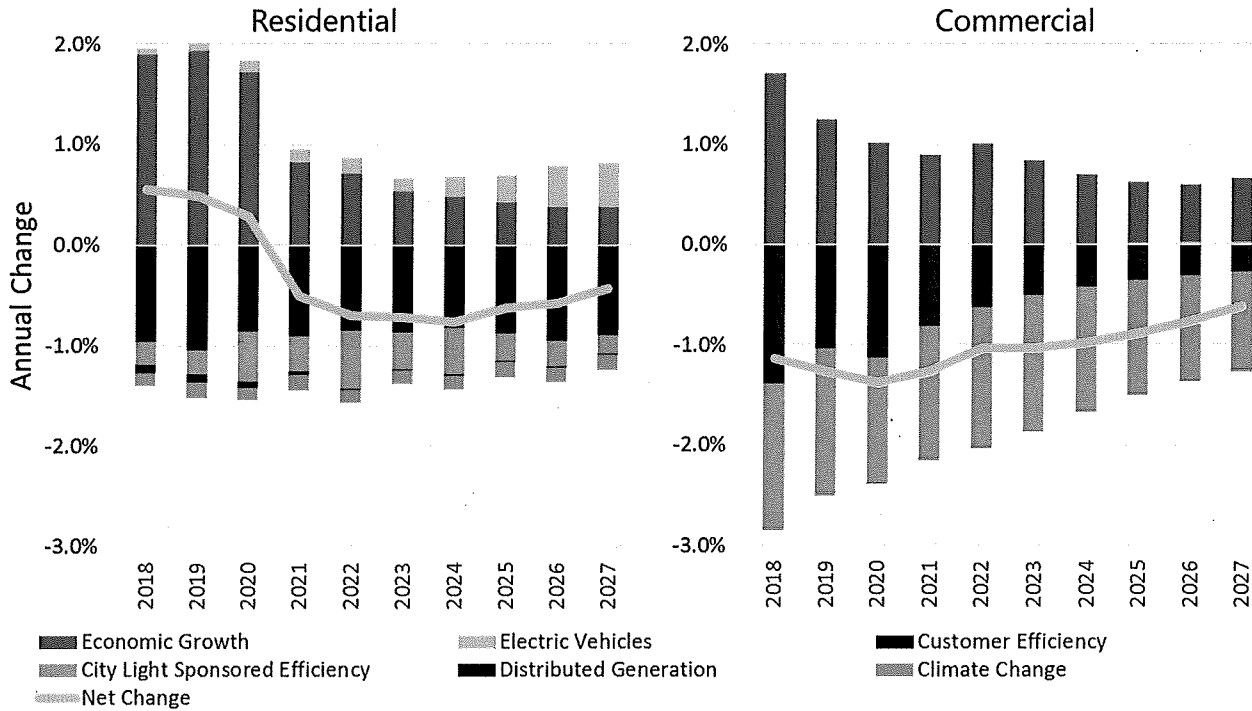
Below is a table of bill impacts assuming each customer receives the annual rate increase noted above and maintains a consistent level of consumption. These impacts are examples only and will change after the retail rate design process is completed. Customers who decrease their consumption through energy efficiency measures will experience smaller bill impacts.

CUSTOMER BILL IMPACT EXAMPLES

	Monthly Bill	Monthly Increase						
	2018	2019	2020	2021	2022	2023	2024	Avg
Residential-typical	\$65.00	\$3.77	\$3.72	\$2.63	\$2.93	\$3.12	\$3.42	\$3.26
UDP Residential-typical (40%)	\$26.00	\$1.51	\$1.49	\$1.05	\$1.17	\$1.25	\$1.37	\$1.31
Small Commercial-Coffee Shop	\$721	\$42	\$41	\$29	\$33	\$35	\$38	\$36
Medium Commercial-Grocery	\$16,399	\$951	\$938	\$663	\$740	\$787	\$863	\$824
Large Industrial-Metals	\$1,591,969	\$92,279	\$91,031	\$64,382	\$71,831	\$76,407	\$83,745	\$79,946

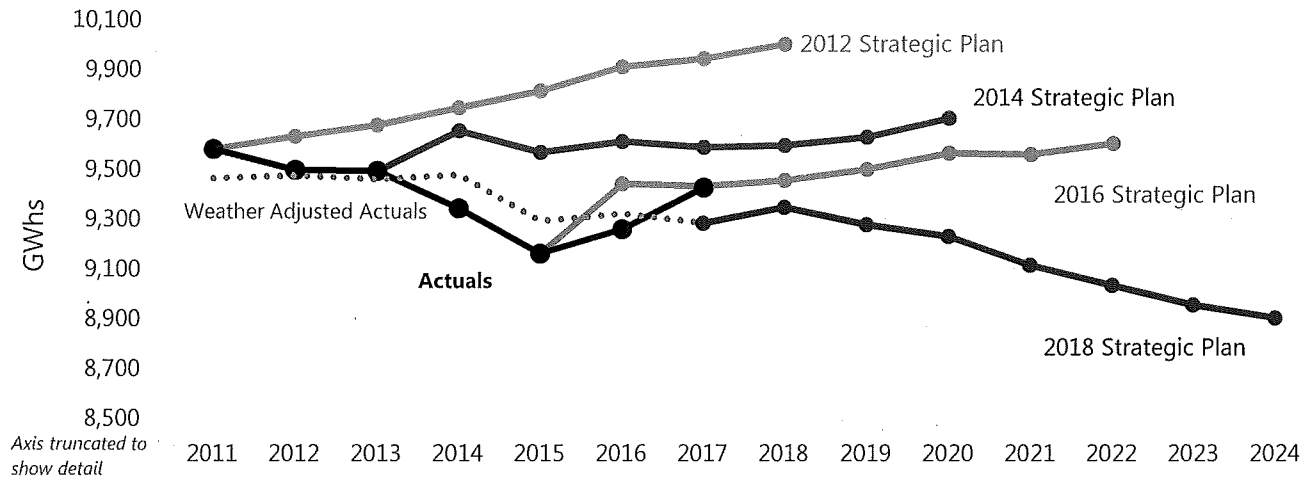
Large Commercial-Education	\$1,787,785	\$103,630	\$102,228	\$72,302	\$80,666	\$85,806	\$94,046	\$89,780
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In 2017, City Light updated its retail sales forecast methodology to better account for energy efficiency and the impacts of weather and other external drivers. Despite strong growth in residential and commercial building stock, retail sales in recent years have been relatively flat on a weather-adjusted ^{05.24.18} basis. Expectations are for building growth to slow and energy efficiency improvements to continue, which will result in future downward-trending retail sales.

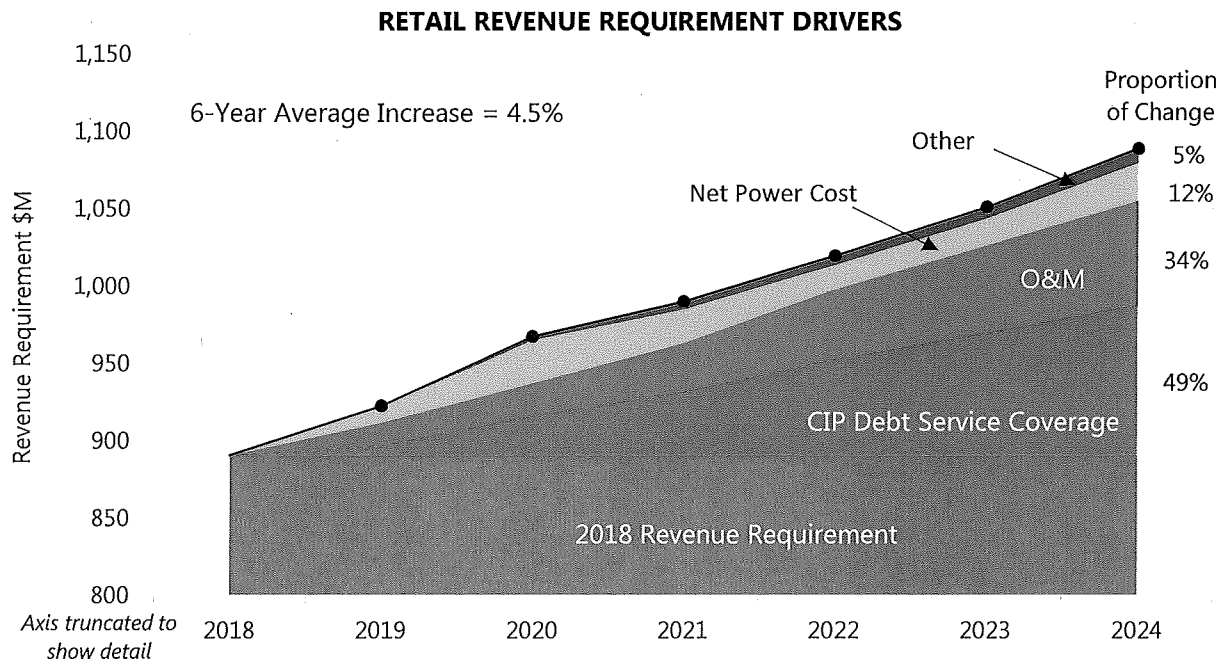


Retail sales are forecasted to decline 0.8% per year on average through 2024. The lower forecasted retail sales compared to the 2016 Strategic Plan adds rate pressure. Decreasing retail sales account for around 2% of the 5.8% 2019 rate increase and about 1% of the 4.5% average 6-year increase.

RETAIL SALES FORECAST



The following chart and tables summarize the drivers of the change in revenue requirement over 2019-2024.



RETAIL REVENUE REQUIREMENT SUMMARY

\$, Millions	2019	2020	2021	2022	2023	2024
Revenue Requirement	922.7	967.5	990.2	1,019.6	1,051.1	1,089.1
Debt Service Coverage						
Debt Service	223.6	234.3	242.9	254.6	264.2	274.3
Additional 0.8x Coverage	178.9	187.4	194.3	203.7	211.4	219.4
Operations & Maintenance (O&M)						
Baseline 2018 O&M	294.2	294.2	294.2	294.2	294.2	294.2
Inflation and REC Growth*	12.1	21.1	31.8	46.6	55.8	66.2
Strategic Plan O&M Adjustments	(9.1)	(12.0)	(11.9)	(13.2)	(11.2)	(10.7)

Net Power Costs						
Power and Wheeling Contracts	280.9	286.6	280.4	264.1	265.6	272.4
Net Wholesale Revenue (NWR)	(55.0)	(50.0)	(50.0)	(40.0)	(40.0)	(40.0)
Power Related Revenues, Net	(18.6)	(11.6)	(11.5)	(11.2)	(10.9)	(10.8)
Other						
Taxes, Payments and Uncollectibles	50.1	52.0	55.4	56.9	58.5	60.6
Miscellaneous Revenue	(34.4)	(34.6)	(35.4)	(36.1)	(36.3)	(36.4)

* Inflation on existing O&M, and incremental renewable energy credit (REC) investments to meet I-937 requirements.

City Light financial policy calls for retail rates to be set so the utility has sufficient revenue net of expenses to cover annual debt service obligations by 1.8 times. Debt service coverage is defined as debt service plus an additional 80% of debt service. Increasing debt service and associated coverage is the single largest revenue requirement driver, which is indicative of the utility's large capital program. The second largest driver is operational expenses (O&M), which are growing primarily due to inflation. The increase in net power costs is driven by inflation in long-term power contracts, plus declining net wholesale revenue. Other costs generally grow in proportion with the revenue requirement, and include state taxes, franchise payments, and uncollectible revenue. Miscellaneous revenue comes from a variety of fees and service charges, as well as from interest earnings; only minor growth in these revenues is anticipated.

INTRODUCTION

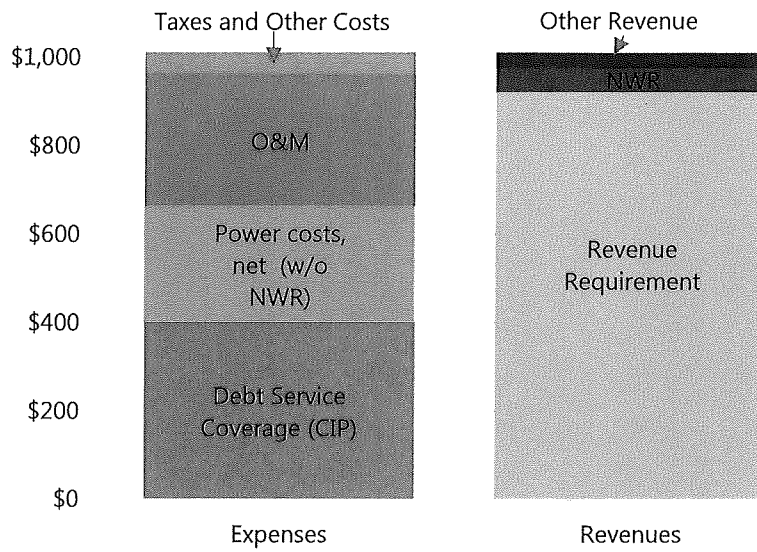
The 2019-2024 Strategic Plan builds on the 2017-2022 Strategic Plan Update (also called the 2016 Strategic Plan) and extends the horizon an additional two years to 2024.

This document details the assumptions that determine the average retail rate path for the years 2019-2024. Average retail rates are not actual billed rates but are the ratio of the revenue requirement to retail sales and represent the average impact to customer bills assuming their consumption is constant.

$$\text{average rate} \left(\frac{\$}{\text{kwh}} \right) = \frac{\text{revenue requirement} (\$)}{\text{retail sales} (\text{kwh})}$$

The revenue requirement is the amount of retail revenue that must be collected to balance revenue with expenses given financial policies. The chart below illustrates how the revenue requirement is sized to meet expenses.

REVENUES AND EXPENSES (2019 FORECAST, \$ MILLIONS)



Following is a short description of each primary component of the revenue requirement. These are discussed in detail in the following sections of this document.

Debt Service Coverage

- The cost of debt funded capital investments (including deferred expenses such as programmatic conservation and superfund remediation) as recovered over time.
- Per policy, debt service coverage is equal to 1.8 times the annual debt service obligation.
- The additional funds in debt service coverage above those needed to pay principal and interest obligations (the remaining 0.8 times) cash-fund a portion of the current year capital requirements, so they are not all debt financed.

O&M

- Includes expenses for all O&M costs.
- All non-capitalized labor costs are included in this category.
- Includes inflation assumptions, additional program funding requirements, as well as mitigating cost reductions.

Power, Net

- Purchased power costs and wheeling (purchased transmission) costs, net of power revenues.
- Includes revenues from surplus power sales, also called net wholesale revenue.
- Does not include costs of operating owned generation (e.g., Skagit, Boundary hydro projects); these are part of O&M.

Other

- Includes taxes, franchise payments and uncollectable revenue, net of miscellaneous revenues.

This document concludes with a discussion of the retail sales forecast, which is the denominator in the average rate formula.

DEBT SERVICE COVERAGE (CIP, DEFERRED O&M AND BONDS)

Debt service coverage represents the cost of capital spending, as recovered over time. Net capital requirements are comprised of the capital improvement program (CIP) plus expenses deferred (such as programmatic conservation and superfund remediation), less capital contributions, which are payments from outside sources that offset capital expenses.

$$\text{Net Capital Requirements} = \text{CIP} + \text{Deferred O\&M} - \text{Capital Contributions}$$

Net capital requirements are not a direct component of the revenue requirement but determine the amount of debt (bonds) that must be issued. The principal payments on outstanding debt and associated interest expense make up debt service.

City Light’s debt service coverage policy (established by Resolution 31187) calls for setting rates to yield sufficient revenue net of expenses to cover annual debt service obligations by 1.8 times. Since the additional 0.8x required for debt service coverage is not an actual expense, these funds are typically allocated to City taxes¹ and current year capital expenditures, which reduces the size of future bonds.

The capital expenditures forecast is based on the 2018-2023 CIP Plan that was adopted in 2017 for the 2018 budget process, adjusted for additional funding and reductions identified in the strategic planning process. It differs from the CIP Plan (budget) in that the timing of spending is adjusted to reflect projected cash outflows, and amounts are reduced by a 10% assumed under-expenditure. For 2024, a \$300 million placeholder value was used (before any incremental changes), which will inform the development of the 2024 CIP budget. Capital expenditures also include deferred O&M, which is treated like CIP.

CAPITAL EXPENDITURES FORECAST

\$ Millions	2018	2019	2020	2021	2022	2023	2024
2018-2023 Adopted CIP	394.6	364.2	319.0	420.4	384.9	271.2	
2024 Placeholder							300.0
CIP Additions and Changes*		-20.7	7.0	-80.9	-57.6	57.6	46.8
Deferred O&M	49.7	49.1	49.9	41.3	48.7	49.8	50.8
Total Capital Expenditures	444.3	392.6	376.0	380.8	376.1	378.6	397.6

*See Appendix 1 for details

The next table summarizes capital requirements and funding sources. Capital contributions include third-party funding for capital expenses such as service connections and reimbursements for certain transportation projects, and are included as a credit to total capital requirements. Capital funding from operations reflects cash drawdowns and may represent net operating proceeds from the current or previous year(s). Bond issuances totaling about \$1.6 billion to support 2018-2024 capital requirements will bring total outstanding debt to just above \$3.0 billion by 2023.

¹ Taxes paid to the City of Seattle are considered junior lien to debt service. They are not included in the taxes category when calculating the revenue requirement.

Per financial policy, the six-year CIP should be funded with at least 40% operating cash. Due to the CIP having several unusually large one-time projects, cash funding is expected to be 34% for the 2018-2023 CIP and 37% for 2019-2024 CIP.

CAPITAL REQUIREMENTS AND FUNDING

\$, Millions	2018	2019	2020	2021	2022	2023	2024
Capital Requirements, net							
CIP	394.6	343.5	326.1	339.5	327.4	328.8	346.8
Deferred O&M	49.7	49.1	49.9	41.3	48.7	49.8	50.8
Capital Contributions	(60.1)	(34.0)	(35.7)	(38.9)	(40.5)	(35.9)	(35.8)
Total	384.3	358.6	340.4	341.9	335.6	342.8	361.8
Capital Funding							
Operations	116.2	110.4	134.1	72.3	127.4	155.3	160.6
Bond Proceeds	268.1	248.2	206.2	269.6	208.1	187.4	201.2
Total	384.3	358.6	340.4	341.9	335.6	342.8	361.8
Total Debt Outstanding	2,506	2,642	2,735	2,888	2,968	3,017	3,086

Capital requirements determine the size of future bond sales and resulting debt service. The bond size is slightly higher than bond proceeds shown in the table above to account for issue costs and required deposits into the bond reserve fund. Debt service assumptions for bonds issued in 2020 and later assume a 30-year term at a 5.0% interest rate. Per financial policy, debt service has a 1.8x impact on the revenue requirement. Most existing debt was issued in the last 10 years with 25-30-year terms and level debt service, which is why debt service on these bonds is decreasing only slightly. In addition, the large capital program is driving larger future bond issues than in the past. Together these two factors are driving up the volume of debt outstanding and associated debt service obligations over the next six years.

BOND SALES AND DEBT SERVICE, \$MILLIONS

	Bond Size	Debt Service						
		2018	2019	2020	2021	2022	2023	2024
Existing ¹		214.4	206.8	201.5	196.5	190.8	187.3	185.0
2018 (Jul) ²	275		16.8	16.8	16.8	16.8	16.8	16.8
2019 (Jul) ²	255			15.6	15.6	15.6	15.6	15.6
2020 (Jul)	289			0.4	14.0	14.0	14.0	14.0
2021 (Aug)	303					17.5	18.1	18.1
2022 (Sep)	220						12.5	13.8
2023 (Sep)	192							11.1
2024 (Sep)	200							
Total		214.4	223.6	234.3	242.9	254.6	264.2	274.3
Debt Service Coverage (1.8x)		386.0	402.5	421.7	437.1	458.3	475.6	493.7

¹ As of March 2018, ² Fixed Rate Bond Issue (30 year at 4.5%)

OPERATING AND MAINTENANCE (O&M)

Operating and maintenance expenses (O&M) are the costs associated with day-to-day operations. O&M is a large and diverse category of costs that includes functions such as power production; distribution and transmission system operation and maintenance; customer services such as billing and meter reading; and administrative support. This forecast defines O&M as excluding purchased power, wheeling and taxes, which are included in separate categories.

The basis for the 2019-2024 O&M forecast is the 2018 O&M budget, which is adjusted to remove costs that do not impact debt service coverage, and then inflated appropriately. The average annual inflation applied to O&M is around 2.8% and represents the increased cost of providing the same level of services as in 2018. The table below lists the inflation assumption for each O&M cost category.

BUDGET O&M INFLATION BY CATEGORY

\$, Millions	2018	2019	2020	2021	2022	2023	2024
Labor	144.4	148.7	152.4	156.0	159.5	163.1	166.9
Labor Benefits	75.8	78.5	81.2	84.1	87.0	90.0	93.2
Non-Labor	81.2	82.8	84.9	86.9	88.8	90.8	93.0
Transfers to City	69.7	71.8	74.0	76.2	78.5	80.8	83.3
Operating Supplies	12.9	13.5	14.2	14.9	15.7	16.5	17.3
Total Inflated Budget	384.0	395.3	406.7	418.0	429.4	441.3	453.6
Labor Increase		3.0%	2.5%	2.3%	2.2%	2.3%	2.4%
CPI Growth*		2.0%	2.5%	2.3%	2.2%	2.3%	2.4%
Avg Growth All O&M		2.9%	2.9%	2.8%	2.7%	2.8%	2.8%

*From IHS Economics – Dec 2017 Forecast for the Seattle Metro area

O&M Category	Annual Inflation	Notes
Labor	see above	2019 higher than CPI to account for higher 2017 CPI (3.3%), which is not reflected in 2018 labor rates
Labor Benefits	3.5%	Based on history, assumed to remain above CPI
Non-Labor	CPI	
Transfers to City	3.0%	Assumed to grow at slightly higher than CPI Inflation
Operating Supplies	5.0%	Includes IT equipment and software, fuel costs, inventory material for distribution and generation systems. Growth assumed to remain high (conservative placeholder)

There are numerous adjustments made to the 2018 O&M budget to make it consistent with financial policies and reflect changes to plans and programs. The following table details these changes. It shows the relationship between the inflated 2018 O&M budget and the O&M baseline forecast; it also shows the cost impact of inflation separated from cost impact of discretionary adjustments (strategic plan adjustments).

O&M ADJUSTMENTS DETAIL

\$, Millions	2018	2019	2020	2021	2022	2023	2024
Inflated 2018 Budget	384.0	395.3	406.7	418.0	429.4	441.3	453.6
Adjustments							
REC Expense ¹	2.4	5.8	5.8	7.8	13.9	13.9	15.2
Intertie Expense ¹	0.9	0.8	0.8	0.8	0.8	0.8	0.8
PNCA Payment ¹	1.8	1.9	1.9	1.9	1.9	1.9	1.5
Capital Loadings ²	(85.0)	(87.5)	(90.0)	(92.6)	(95.2)	(98.0)	(100.8)
Under Expenditure ³	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
O&M Baseline with Inflation	294.2	306.3	315.2	325.9	340.8	349.9	360.4
2018 Baseline	294.2	294.2	294.2	294.2	294.2	294.2	294.2
Inflation and REC growth		12.1	21.1	31.8	46.6	55.8	66.2
Strategic Plan Adjustments ⁴	-	(9.1)	(12.0)	(11.9)	(13.2)	(11.2)	(10.7)
Total O&M	294.2	297.2	303.3	314.0	327.6	338.7	349.7

¹ Items that are budgeted as purchased power budget but recognized as O&M in financial statements:

- Renewable Energy Credits (RECs), the increase in 2022 reflects the purchase of Stateline RECs after the current purchase power contract expires.
- Maintenance costs associated with ownership of the 3rd AC intertie
- Payments for the Pacific Northwest Coordination Agreement (PNCA) related to the compensation for the benefits of upstream storage at the Boundary project.

² Remove capital loadings and overhead expenses associated with the CIP from the O&M budget and include these expenses as capital requirements. CIP and deferred overheads are expected to increase at a rate of 2.9% per year, predicated on the assumption that labor levels will remain constant for CIP and deferred O&M over the six-year planning period.

³ Remove \$10 million per year to reflect an assumption of budget under-expenditure

⁴ Changes to O&M outside of inflation. See Appendix A for details.

POWER COSTS, NET

This category includes all costs and revenue associated with the purchase and sale of electricity, wheeling (transmission) and associated ancillary power management services.

City Light's power portfolio is a relative constant. Except for expiration of the Stateline contract in 2022, no major contract changes and no new resources are expected. Below is a table outlining long-term power and wheeling costs.

LONG-TERM POWER AND WHEELING CONTRACTS

\$, Millions	2018	2019	2020	2021	2022	2023	2024
BPA Power ¹	170.0	172.8	176.9	178.9	183.9	186.0	191.3
Priest Rapids ²	2.1	2.0	1.9	1.9	1.8	1.8	1.7
Grand Coulee ³	6.8	7.1	7.3	7.4	7.6	7.8	7.5
Lucky Peak ⁴	8.2	8.4	8.6	8.9	9.1	9.3	9.5
Stateline ⁵	24.7	24.8	25.0	25.0	1.7	0.0	0.0
Columbia Ridge ⁶	6.5	6.6	6.7	6.9	7.0	7.1	7.3
King County West Point ⁶	2.1	2.2	2.3	2.3	2.4	2.4	2.5
High Ross ⁷	12.8	13.1	13.1	0.1	0.1	0.1	0.1
BPA Wheeling ¹	42.2	43.0	43.9	44.3	45.7	46.1	47.5
Other Wheeling ⁸	0.9	0.9	0.9	4.7	4.8	4.9	5.0
Total Power and Wheeling	276.4	280.9	286.6	280.4	264.1	265.6	272.4

¹ Assumes increases of 4% biennially, effective October 1 of odd-numbered years.

² Priest Rapids costs are expected to decline because City Light's share of the project will shrink as Grant County PUD's load grows.

³ Reflects City Light's apportioned allotment of production O&M costs, growing with inflation.

⁴ Reflects production O&M cost growing with inflation.

⁵ Stateline wind costs will grow gradually as outlined in the integration and exchange contract with PacifiCorp. The contract expires at the end of 2021 with the last payment in 2022. City Light has already contracted to receive RECs from the Stateline Project starting in 2022 (which are included in O&M), but will not continue to purchase the power.

⁶ Cost inflates per contract terms.

⁷ Expenses for the High Ross contract will decrease significantly after 2020 to reflect the end of the 25-year debt service payments outlined in the contract. The amount of energy received is unchanged.

⁸ Other Wheeling reflects an exchange agreement for the Lucky Peak output for 2018-2020 which will assign the associated transmission to the counterparty, reducing expenses by \$3 million. Starting in 2021, this expense is reinstated, as Lucky Peak energy will be retained.

City Light's largest contract is with the Bonneville Power Administration (BPA). In 2017 City Light converted its prior combination of Block and Slice products to an all Block product. BPA power and wheeling rates are assumed to increase at 4% every 2 years, effective in October of odd years. After BPA

announces its final rates for fiscal year 2020, any differences between fiscal year 2020 actual costs and the costs based on the assumptions below will be passed-through or credited to City Light customers via the BPA pass-through mechanism (SMC 21.49.081).

BPA DETAIL

\$ Millions	2018	2019	2020	2021	2022	2023	2024
Block Power	170.0	172.8	176.9	178.9	183.9	186.0	191.3
Wheeling	42.2	43.0	43.9	44.3	45.7	46.1	47.5
Total BPA Costs	212.3	215.8	220.8	223.2	229.6	232.1	238.8
Annual Change		1.7%	2.3%	1.1%	2.9%	1.1%	2.9%

Power revenues are comprised of Net Wholesale Revenue, other miscellaneous power revenues, and long-term power sale obligations. The following table details these assumptions.

POWER REVENUES, NET DETAIL

\$, Millions	2018	2019	2020	2021	2022	2023	2024
Net Wholesale Revenue ¹	44.8	55.0	50.0	50.0	40.0	40.0	40.0
Power Contracts ²							
Article 49 to PO County	2.1	2.2	2.2	2.3	2.3	2.4	2.4
Priest Rapids	1.8	1.6	1.5	1.4	1.4	1.3	1.2
BPA Credit for South Fork Tolt	3.2	3.1	3.1	3.0	2.9	2.9	2.8
BPA Residential Exchange Credit	5.7	4.3	-	-	-	-	-
Power Marketing, Net ³	4.5	4.0	1.4	1.4	1.4	1.4	1.4
Transmission Sales ⁴	5.0	3.4	3.4	3.4	3.3	3.0	3.0
Total Power Related Revenues, Net	22.3	18.6	11.6	11.5	11.2	10.9	10.8
Total Power Revenues, Net	67.1	73.6	61.6	61.5	51.2	50.9	50.8

¹ Net Wholesale Revenue (NWR) is the revenue from selling surplus energy on the wholesale market, net of purchases for load balancing. 2019-2022 NWR planning values were adopted as part of prior strategic plans and represent a gradual downward shift reflecting less reliance on this volatile revenue source. 2022 is reduced to \$40 million to account for the expiration of the Stateline wind contract, which will reduce the energy surplus.

² In aggregate, revenue in this category will decline in 2020 when the lookback credit for the BPA Residential Exchange expires.

³ Power marketing revenues (net of purchases) are earned from sales of ancillary services associated with generation and transmission assets, such reserve capacity sales. Revenues are expected to decline in 2020 primarily because of lower Lucky Peak exchange premiums. The current 2-year exchange contract goes through 2019 and the premium is \$2.1 million per year. No exchange premium is assumed for 2020 onward.

⁴ Starting in 2019, excess BPA 3rd AC transmission capacity will be marketed in the Western Energy Imbalance Market (WEIM) and revenues will contribute to NWR.

OTHER COSTS AND MISCELLANEOUS REVENUES

This "other" category is made up of costs and revenues such as taxes, interest income and fees for retail services.

OTHER COSTS (TAXES, PAYMENTS AND UNCOLLECTIBLES) DETAIL

\$, Millions	2018	2019	2020	2021	2022	2023	2024
State Taxes ¹	35.4	36.4	37.6	40.8	41.8	42.9	44.4
Franchise Payments & Other Taxes ²	6.4	6.8	7.0	7.2	7.4	7.7	7.9
Uncollectible Revenue ³	6.6	7.0	7.3	7.5	7.7	7.9	8.2
Total Other Costs	48.4	50.1	52.0	55.4	56.9	58.5	60.6

¹ State taxes are 3.8734% of retail revenues, plus some other revenues and contributions. Not included are City taxes, which are 6% of total taxable revenues, but do not directly impact the revenue requirement because they are junior to debt service. They are treated as a "below the line" expenditure and are deducted from the additional 0.8x debt service coverage, reducing the amount of current year operating proceeds going to capital requirements.

² Payments associated with franchise contracts with the cities of Burien, Lake Forest Park, SeaTac, Shoreline, and Tukwila. Franchise payments range from 4% to 6% of total retail revenue in each franchise territory. Other taxes are miscellaneous taxes (e.g., B&O tax) to other jurisdictions where the utility has operations. The forecast projects only small increases in these taxes.

³ Uncollectible revenue is assumed to be 0.75% of retail revenues.

MISCELLANEOUS REVENUE SOURCES DETAIL

\$, Millions	2018	2019	2020	2021	2022	2023	2024
Non-Base Rate Retail Revenue ¹	3.9	3.9	4.4	4.5	4.5	4.6	4.6
Other Revenue ²	19.4	19.5	19.6	19.7	19.8	19.9	20.0
Suburban Undergrounding ³	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Property Sales ⁴	1.0	1.1	1.2	1.2	1.2	1.2	1.3
Interest Income ⁵	5.8	5.8	7.0	8.1	8.7	8.8	8.7
RSA Transfers, Net ⁶	14.9	(0.1)	(1.7)	(2.1)	(2.2)	(2.2)	(2.3)
Total Miscellaneous Revenues	49.1	34.4	34.6	35.4	36.1	36.3	36.4

¹ Non-base rate retail revenue includes revenues from retail customers for services or programs which are not dictated by the revenue requirement. Examples include: elective green power programs, distribution capacity charges and power factor charges.

² Other revenue includes a broad range of income sources, such as late payment fees, payments for damages to property, transmission tower attachments, distribution pole attachments and account change fees. The items are expected to increase gradually over time.

³ Suburban undergrounding revenues are collected from customers in certain suburban cities for the repayment of discretionary municipal undergrounding of parts of their distribution system.

⁴ Property sales based on historical averages. No large sales are assumed in this forecast.

⁵ Interest income assumes City Cash Pool cash holdings accrue interest at an annual rate of 1.5%-2.0% on average. The increases reflect higher average cash balances, primarily from a growing bond reserve fund and a gradual increase in interest rates.

⁶ Rate Stabilization Account (RSA) transfers are the deposit into the RSA net of any RSA surcharge revenue. They primarily reflect interest earned by the RSA.

RETAIL SALES

The forecast of retail sales is based on the 2017 official load forecast, which projects declining sales at an average rate of -0.8% per year.

RETAIL SALES FORECAST

	2018	2019	2020	2021	2022	2023	2024
GWh							
Residential	3,132	3,147	3,165	3,140	3,119	3,096	3,081
Small and Medium	3,618	3,568	3,530	3,476	3,441	3,406	3,383
Large and High Demand	2,599	2,563	2,536	2,499	2,474	2,452	2,439
Total	9,348	9,279	9,230	9,116	9,034	8,955	8,903
Annual Change							
Residential		0.5%	0.6%	-0.8%	-0.7%	-0.7%	-0.5%
Small and Medium		-1.4%	-1.1%	-1.5%	-1.0%	-1.0%	-0.7%
Large and High Demand		-1.4%	-1.1%	-1.5%	-1.0%	-0.9%	-0.5%
Total		-0.7%	-0.5%	-1.2%	-0.9%	-0.9%	-0.6%

The forecast of retail sales has decreased since the 2017-2022 Strategic Plan. Most retail revenue is collected through per-kWh or energy rates, so fewer kWh means higher rates are needed to recover the same amount of revenue.

The chart and table below show the impact to the average rate increase resulting from the current retail sales forecast being lower than what was assumed in the 2017-2022 Strategic Plan.

RETAIL SALES FORECAST AND IMPACT ON AVERAGE RATES

	2018	2019	2020	2021	2022	2023	2024
Revenue Requirement, \$M		922.7	967.5	990.2	1,019.6	1,051.1	1,089.1
Retail Sales Forecast, GWh							
2019-2024 Plan	9,348	9,279	9,230	9,116	9,034	8,955	8,903
2017-2022 Plan	9,456	9,501	9,565	9,560	9,604		
Average Rate cents/kWh							
2019-2024 Plan	9.40	9.94	10.48	10.86	11.29	11.74	12.23
2017-2022 Plan	9.40	9.71	10.12	10.36	10.62		
Annual Rate Increase							
2019-2024 Plan		5.8%	5.4%	3.6%	3.9%	4.0%	4.2%
2017-2022 Plan		3.3%	4.1%	2.4%	2.5%		

APPENDIX A: STRATEGIC PLAN ADJUSTMENTS

O&M

This section details changes to O&M outside of inflation. These changes were determined as part of the strategic planning process. The top section of the table shows changes that are carried over from past strategic plans; this new plan contains no incremental O&M funding. The next section shows reinstated one-time reductions originally intended to mitigate 2018 rates.

This strategic plan also includes mitigating O&M reductions of \$18 million in 2019, growing with inflation to \$20.3 million in 2024. Note that as of the date of this document, the exact nature of these O&M reductions has not been determined. It is possible that O&M reductions will offset either partially or in full some of the additions listed in this table.

O&M STRATEGIC PLAN ADJUSTMENTS DETAIL

\$, Millions	2019	2020	2021	2022	2023	2024
Past initiatives and new funding						
Advanced metering initiative	0.9	-1.2	-1.5	-1.9	-1.9	-1.9
Customer service initiatives	1.6	-0.8	-0.4	0.2	1.4	2.5
Power supply, generation facilities	0.9	2.8	2.6	1.5	2.7	2.6
Asset management, testing, and switches	0.4	0.6	1.1	1.1	1.1	1.1
Seismic upgrades, security and safety	0.3	0.4	0.4	0.4	0.4	0.4
Restoring temporary 2018 budget reductions						
Asset and project management	2.0	2.0	2.0	2.0	2.0	2.0
Internships, memberships, and services	0.4	0.4	0.5	0.5	0.5	0.5
Fuel costs, training and facilities	0.8	0.8	0.8	0.8	0.8	0.8
Line clearance and operations overtime	0.9	0.9	0.9	0.9	0.9	0.9
Greenhouse gas offsets	0.7	0.7	0.7	0.7	0.7	0.7
O&M Reductions	-18.0	-18.5	-18.9	-19.3	-19.8	-20.3
Total Adjustments to O&M	(9.1)	(12.0)	(11.9)	(13.2)	(11.2)	(10.7)

CIP

The following table details the changes in capital expenditures that were not in the 2018-2023 CIP Plan.

CIP ADDITIONS AND CHANGES

\$, Millions	2019	2020	2021	2022	2023	2024	Total
Boundary Facilities Master Plan		0.7	2.3	2.3	2.7	1.4	9.2
Skagit Facilities Master Plan Phase 2		4.4	6.7	6.4	9.2	1.8	28.6
Powerhouse Systems		2.7					2.7
Power Plant Controller Replacement		2.3	2.3				4.5
Boundary Native Salmonid Hatchery		-0.5	-0.5	-0.5	-0.5	-0.5	-2.6
Energy Mgmt System SCADA Upgrade		1.8					1.8
Cable Replacement		5.4	16.2	32.4	32.4	32.4	118.8
Enterprise Software Upgrades					11.7	9.9	21.6
UW Underground Capacity Additions		1.8	9.5	10.8	10.8	9.0	41.9
Sound Transit 3 (ST3)		0.6	0.3	0.5	0.5	0.5	2.6
UW and ST3 Reimbursements ¹		-2.1	-7.9	-9.2	-9.2	-7.7	-36.0
Total Additions (Net)		17.0	28.8	42.7	57.6	46.8	192.9
Cancel Master Service Center			-59.7	-40.3			-100.0
Cancel Technical Training Center	-10.7						-10.7
CIP Reductions ²	-10.0	-10.0	-50.0	-60.0			-130.0
Total Reductions	-20.7	-10.0	-109.7	-100.3			-240.7
Total CIP Additions and Changes	-20.7	7.0	-80.9	-57.6	57.6	46.8	-47.8

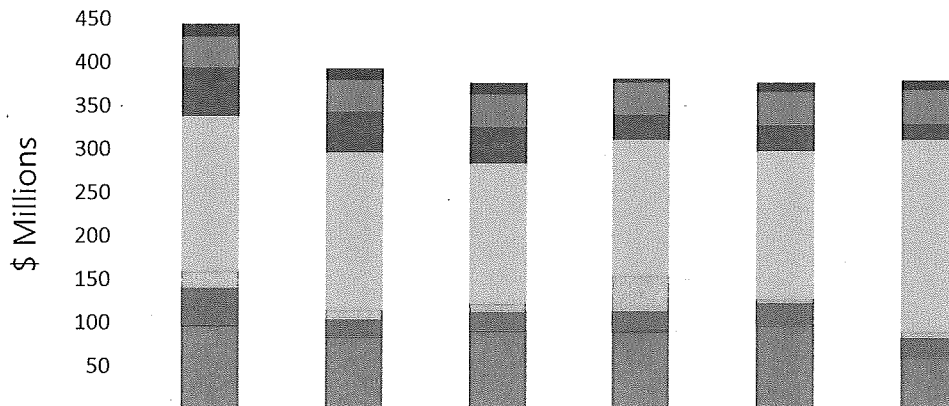
¹ The UW project is expected to be 80% reimbursable, and the Sound Transit 3 project is expected to be 100% reimbursable.

² Target reductions for rate mitigation, which will be identified as a part of the 2019-2024 CIP budget process. (This table documents budget development status as of mid-May.) Reductions may reduce or eliminate additions listed in this table.

The following bar chart is a graphical depiction of capital expenditures, incorporating the additions and reductions listed in the table above. In the chart, the "CIP Reductions" still in the process of being identified are all categorized as "Distribution" for simplicity. The year 2024 is not shown because a comprehensive CIP plan has not yet been developed for that year.

Several key infrastructure projects are currently in progress including the Denny Substation, Advanced Metering and Alaskan Way Viaduct Infrastructure Relocation. As a result, current capital requirements are significantly larger than historical levels. Capital spending is expected to peak in 2018 and then decline to more typical levels.

CAPITAL REQUIREMENTS FORECAST: BASED ON 2018-2023 ADOPTED CIP



	2018	2019	2020	2021	2022	2023	Total 2018- 2023
Other Deferred O&M	14	13	13	4	10	11	65
Conservation	35	36	37	38	38	39	223
External Projects	56	47	43	29	30	19	225
Distribution	179	182	162	157	170	222	1,071
Transmission	18	10	9	40	4	5	87
Central Utility Projects	45	20	23	24	26	24	162
Power Supply	97	84	90	89	96	59	515
Total Expenditure	444	393	376	381	376	379	2,348

MAJOR CIP PROJECTS 2018-2024 SPENDING, \$MILLIONS

Included in 2018-2023 Adopted CIP Budget

8351: Overhead Equipment Replacements	152.4
6987: Boundary - Licensing Mitigation	104.3
8366: Medium Overhead and Underground Services	94.4
8353: Underground Equipment Replacements	86.9
6986: Skagit - Relicensing	58.2
7125: Denny Substation Transmission Lines	50.3
8307: Alaskan Way Viaduct and Seawall Replacement - Utility Relocs	82.4
8452: Pole Attachments	62.6
8404: Denny Substation - Network	65.7
9101: Equipment Fleet Replacement	57.0
9969: Enterprise Software Solution Replacement Strategy	46.8
8363: Network Additions and Services: Broad Street Substation	51.6



2019 – 2024 Strategic Plan

Summary of Customer and Stakeholder Outreach



Contents

Executive Summary.....	2
Methods	3
Market Research	3
Stakeholder Forums.....	3
Employee Outreach	3
Market Research	5
Key Findings	6
Residential Customers	6
Utility Discount Program Customers.....	7
Commercial Customers	8
Key Commercial Customers.....	9
Materials.....	9
Stakeholder Forums	10
Summary of Stakeholder Meetings.....	10
Key Findings	12
Rates and Bills	12
Reliability.....	12
Infrastructure.....	12
Operations.....	13
Materials.....	13
Limited English Proficiency (LEP) Stakeholders	14
Employee Outreach	15
Current Culture Employee Survey.....	15
All Employee Messages.....	15
Online Presence	15
Appendices.....	16-103
Appendix A: Letter inviting participants to market research survey.....	16
Appendix B: Market Research/Survey Instrument.....	19
Appendix C: Market Research Final Report.....	36
Appendix D: Sample strategic plan presentation to stakeholder.....	68
Appendix E: Letter inviting participants to Community Partners Forum.....	90
Appendix F: Email re: Community Partners Forum.....	92
Appendix G: Strategic Plan Preview.....	94
Appendix H: Translated Outreach Advertisements.....	97
Appendix I: Ethnic Publication Schedule.....	102

Executive Summary

An important commitment made by City Light as part of the six-year Strategic Plan process is transparency and accountability to the Mayor, the City Council, and the customers and stakeholders in the utility's service territory. Over the course of nine months (September 2017 – May 2018), Seattle City Light has engaged in concerted outreach efforts to gain the input of customers and stakeholders about the development of our 2019 – 2024 Strategic Plan. We have conducted an extensive market research study and held or attended stakeholder meetings with multiple groups in an effort to reach environmental, energy, business, industry, and community groups as well as City Light customers. Seattle City Light is partnering with the City's Department of Neighborhoods, the Office of Planning & Community Development, and Seattle's Ethnic Chamber of Commerce Coalition to maximize efforts to reach neighborhood groups in multiple languages. The feedback we received during this process informed the priorities and programs that will become the focus for City Light's 2019 – 2024 Strategic Plan.

Operating for the benefit of our customers is central to our mission. Therefore, it is important that we gather input from our customers to better understand their needs and help guide the direction of the utility. At a high level, here is what we heard from customers.

- Leverage new technologies to improve service, lower costs, and ensure safety
- Invest in alternative clean energy solutions, such as replacing fossil fuels with clean electric power for transportation
- Invest in infrastructure and operations to improve power reliability
- Set rates that are predictable and affordable
- Maintain the legacy utility infrastructure

Overall, we learned that customers want us to effectively prepare for the future while keeping costs affordable, and we are confident that the 2019-2024 Strategic Plan will help us achieve these objectives.

Methods

This is a summary of the various methods used to reach interested individuals and organizations. A more detailed summary is provided on page four.

Market Research

Outreach for the strategic plan was spearheaded by an extensive market research survey. Invitations were sent to over 50,000 customers and more than 1,700 responses were received. The firm that conducted the survey was able to confirm that results were representative across City Light's customer base.

Stakeholder Forums

In addition to conducting a survey, City Light met with various stakeholder groups to gain additional insight and provide details on the survey results. Over the course of six months, City Light met with 330 stakeholders who ranged from local government to community groups. Additionally, City Light made itself available at five city-wide open houses as part of the effort to connect with limited English proficiency (LEP) customers.

Employee Outreach

In 2016, City Light invited its employees to take a survey and 68% of employees participated. They provided input on the strengths and opportunities within City Light which were included in the analysis of stakeholder input for the strategic planning effort and will guide us as we move forward.

Direct Mail Postcard	15,000 customers were invited to the online survey, including general commercial and residential customers
Email Invitations	35,137 customers were invited to the online survey, including general commercial and residential customers
Online Survey	1,665 participants across three customer groups The survey was open October 2 to 13, 2017 for key commercial customers and October 9 to 23, 2017 for residential and general commercial customers.
Stakeholder Meetings	330 attendees at 12 meetings held October 2017 through March 2018
Customer Outreach	City Light presented information and answered questions about the new six-year strategic plan to customers at five city-wide open houses
Media	Translated notices informing stakeholders about City Light's strategic planning process placed in nine Seattle-area ethnic publications

Market Research

Our market research survey provided us with a wealth of information on what our customers want City Light to focus on over the next six years. The survey was conducted over the course of a month last fall with the goal of identifying customer priorities. Over 1,700 residential, general commercial, and key commercial customers responded. Overall, customers want City Light to plan for the future while keeping costs down. When customers were asked what is most important for City Light to focus on in the next Strategic Plan, here is what we heard:

Top Priorities for Residential and General Commercial Customers

- New technologies to improve service, lower costs, and ensure safety
- Invest in alternative clean energy, such as replacing fossil fuels with clean electric power for transportation
- Invest in infrastructure and operations to improve power reliability

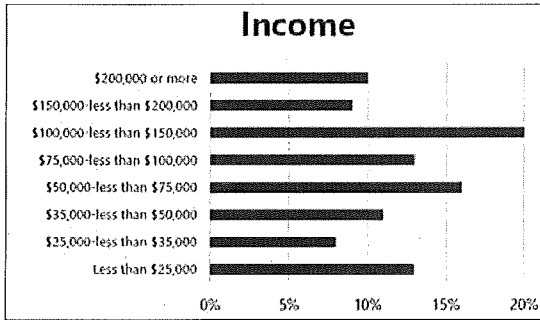
Top Priorities for Key Commercial Customers

- Invest in infrastructure and operations to improve power reliability
- Maintaining our hydroelectric dams and distribution systems
- New technologies to improve service, lower costs, and ensure safety

"Seattle City Light should be congratulated on the sophistication of the market research survey." – Northwest Energy Coalition participant

Key Findings

Residential Customers



The survey received feedback from 1,377 residential customers, and their responses provided us with valuable information regarding what Seattle City Light should focus on in the upcoming strategic plan.

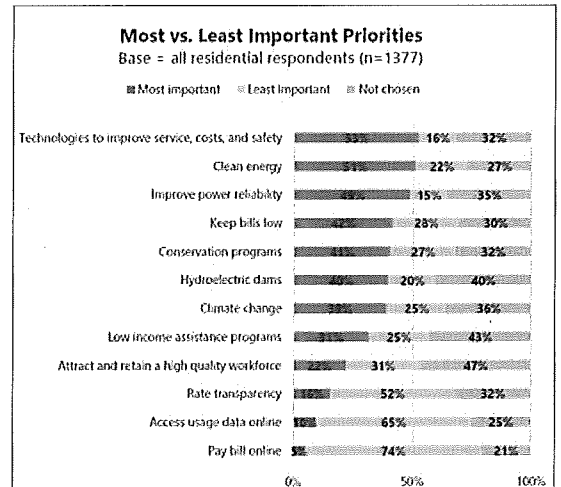
- 57% respondents agreed that power reliability and availability has improved
- The overall opinion of Seattle City Light was correlated with bill amounts; those who paid more every month had a lower opinion of the utility, and those who

paid less had a higher opinion.

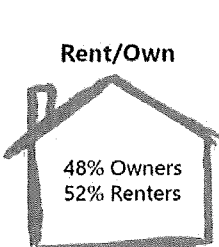
- 51% agreed that City Light has made infrastructure improvements over the last two years

When asked about priorities: cost concerns, alternative energy, and infrastructure improvements were among the top three things Seattle City Light should focus on. When asked to rank their top 3 priorities:

- 53% believed that finding technologies to improve service, costs, and safety was most important;
- The 2nd and 3rd priorities were clean energy and power reliability; and
- Keeping bills low was the 4th priority and was ranked as the top priority by 42% of respondents.

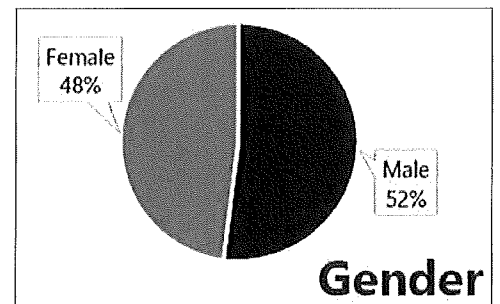


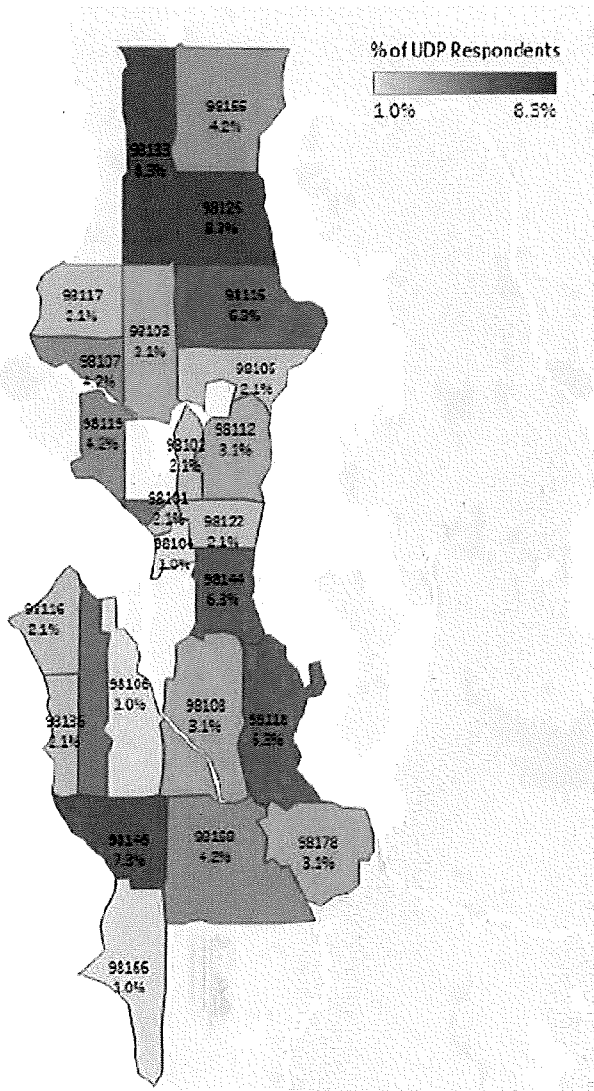
Leadership in clean energy was particularly important to residential customers, with 42% ranking it as their first priority choice out of six choices. This view is echoed by commercial and key customers, who also ranked it as their top priority. Residential became more divided when they were asked to rank rate predictability. 17% ranked this as their top choice, and 25% ranked it as their sixth choice.



Of all residential customers who took the survey:

- 59% believed that their bill was reasonable. These respondents also tended to have the lowest bills.
- 86% are more likely to pay less than \$50 every two months.
- Billing amount is inversely related to satisfaction with Seattle City Light. Respondents with a higher amount are less likely to rate Seattle City Light with a 7 or above. 59% rated Seattle City Light with at least an 8 out of 10.





Utility Discount Program Customers

As part of the survey methodology, Utility Discount Program (UDP) customers were oversampled to ensure we got valuable feedback from this customer group. UDP is one of our methods for providing billing assistance to customers.

The demographics of the respondents indicate that:

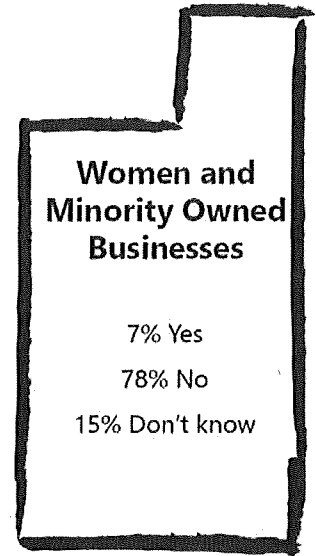
- 81% of respondents are renters
- 95% earned less than \$50,000
- Most are in their 50s and 60s

UDP customers also tend to have a more positive opinion of Seattle City Light. The top priorities for UDP respondents mirrored those of our other residential respondents.

Commercial Customers

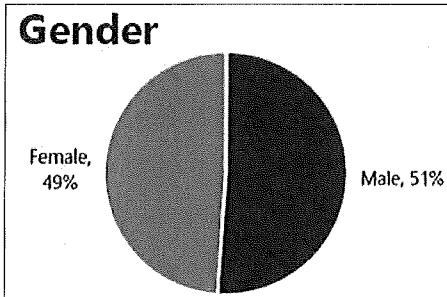
230 of our general commercial customers responded to the survey and provided feedback on what Seattle City Light should focus on in the upcoming strategic plan.

- 80% of respondents had been unaware of the presence or role of a strategic plan at Seattle City Light;
- 57% of respondents agreed with residential customers that power reliability and availability have improved over the last two years;
- Most of these organizations had 50 employees; and
- Organizations with 2 to 49 employees were more likely to be owned by women.



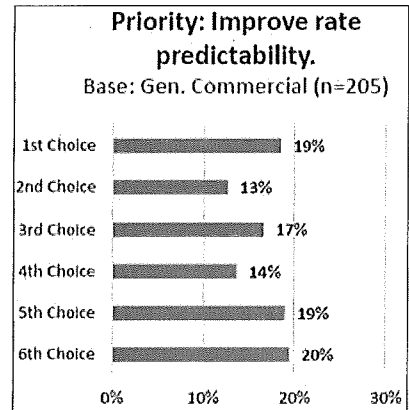
Many of the insights provided by commercial respondents were echoed by residential customers:

- 54% agreed that power reliability was the most important. This view was reinforced by the 19% of respondents who ranked rate predictability as the top priority (of 6).
- The most important priority was improving service, costs, and safety. Residential respondents provided the same response.



Respondents shared views with residential customers about what should be our first priority choice, when asked to rank 6 options.

- 39% of respondents chose leadership in clean energy solutions, compared to 42% of residential customers.
- 25% ranked environmental stewardship as 2nd choice.
- 17% ranked rate predictability as 3rd choice



Of note, rate predictability, while highly prioritized by many respondents, was the 6th choice for 20% of all respondents.

Customer service was of special interest to commercial customers. It was placed in the highest rank, 4th choice. This finding was correlated with awareness of the strategic plan. Commercial respondents who reported awareness tended to rank customer service lower than other priorities.

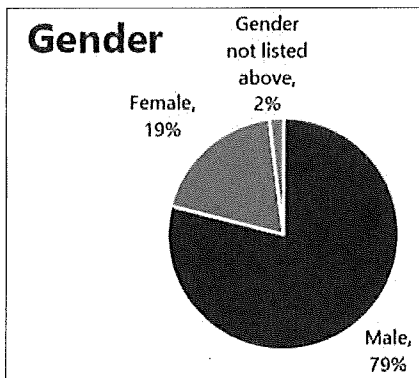
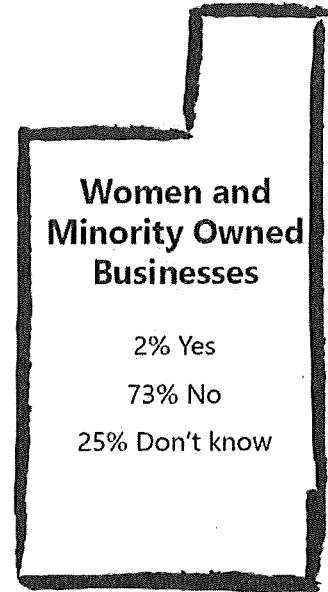
Key Commercial Customers

58 of our key commercial customers responded to the survey and provided us with valuable feedback on how we can meet their specialized needs. Our responses represent a wide range of customers:

- 62% of respondents were aware of the strategic plan before being invited to take the survey;
- 60% of the respondents have at least 250 local employees;
- The most represented industries were real estate, non-profit, government, and churches being the most popular; and
- 94% of respondents have been customers for at least 10 years.

The long customer history was able to give us valuable insight on how City Light has performed over the last few years. Of all respondents,

- 54% agreed that power reliability and availability has improved over the past two years;
- 50% agreed that City Light has used technology to improve customer service and communication; and
- 51% agreed that customer energy efficiency and conservation programs have improved.



Key customers have specialized needs that are associated with their business, and respondents were able to provide information on what City Light can do in the upcoming six years to continue meeting these needs. Responses that stood out were:

- 69% believe that improving reliability is the most important priority when asked to choose the most important and least important priority;
- Key customers had the fewest respondents choose low bills as the most important priority (38%);
- 31% of respondents highlighted infrastructure as being tied to their most important priority; and
- 56% ranked rate predictability in the top 3 of 6 choices.

Overall, City Light is viewed favorably, and is evidenced by 66% of respondents giving the utility a rating of 8+ out of 10.

Materials

In conducting the market research survey, several materials were developed. The invitation sent to stakeholders, final report, and survey instrument are attached at the end of the report and can be found in Appendix A through C.

Stakeholder Forums

Summary of Stakeholder Meetings

Stakeholder Group	Key Questions/Comments	Number of Participants
<u>Key Customers</u> 10/17/2017 1/31/2018	<ul style="list-style-type: none"> • Power reliability is necessary for conducting business • Gradual rate increases would be easier for budgeting as opposed to bearing the brunt of the increases in the beginning 	70 65
<u>Business Owners and Management Association (BOMA)</u> 11/16/2017	<ul style="list-style-type: none"> • Inquired as to the difference in overhead and underground systems in terms of reliability and ease of finding service faults • Would like transparency and predictability in rates • Would like better rate protection than is derived from the Rate Stabilization Account (RSA) • Demand charges affect work ability/scheduling 	25
<u>Manufacturing and Industrial Council (MIC)</u> 11/29/2017	<ul style="list-style-type: none"> • Rising rates are difficult for the manufacturing sector and public schools to absorb • Additional power sources should be on Seattle City Light's radar. Specifically, wind, solar, bio-gas, and tidal energy • Discussed the impact climate change will have on power availability • Expect rate predictability • Seattle City Light should engage in educational outreach • Discussed City Light's infrastructure resiliency efforts 	19
<u>Low-Income Providers</u> 12/6/2017	<ul style="list-style-type: none"> • Would like greater equity in service delivery through process improvements • Improve communications with low-income customers 	8
<u>Environmental Advisory Board</u> 1/12/2018	<ul style="list-style-type: none"> • Increase transparency in distribution and integration; and distribution, system, and resource planning • Provide tangible measures for initiatives • Benchmark Seattle City Light against nation's leading utilities • Balance debt with plans for sustainability and consumption decline 	15
<u>Seattle Chamber of Commerce</u> 1/16/2018	<ul style="list-style-type: none"> • Increase rate transparency and predictability • Discussed the effect of electric vehicles on retail load • Discussed the role of new regional construction in the forecast 	50

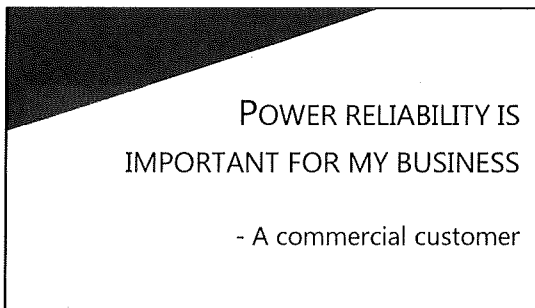
<p>Seattle City Council, Housing, Health, Energy, and Workers Rights Committee</p> <hr/> <p>1/18/2018</p>	<ul style="list-style-type: none"> • City Light should invest in the future • Discussed the next steps in clean energy and helping the City become carbon neutral 	4
<p>Seattle 2030 District</p> <hr/> <p>1/24/2018</p>	<ul style="list-style-type: none"> • Set rates considering conservation and energy efficiency efforts • Develop more incentive programs • Invest in technologies that can be scaled quickly and efficiently 	40
<p>Community Partners</p> <hr/> <p>2/16/2018</p>	<ul style="list-style-type: none"> • Increase equity in pricing for small businesses • Seek equitable allocation of costs for development • Offer educational programs on energy efficiency for small businesses 	5
<p>Franchise Cities</p> <hr/> <p>2/26/2018</p>	<ul style="list-style-type: none"> • Deliver rate equity among franchise cities compared to other City Light customers • Increase transparency in customer billing • Power restoration timeframe during outages for franchise cities should be equal to that for other customers. • Improve customer service 	6
<p>Northwest Energy Coalition</p> <hr/> <p>3/5/2018</p>	<ul style="list-style-type: none"> • Increase sustainable power sources • Ensure stable and predictable pricing for customers • Recognition of declining load in forecast 	23

Key Findings

Rates and Bills

Customers want bills that are reliable, predictable, and accurate. There was discussion at most meetings regarding the rate path. Overwhelmingly, participants felt that implementing rate changes gradually over the course of a few years would be better than a large one-time change. Key customers especially expressed that this was best for their businesses. Customers were generally understanding of the need for rate increases and they understand why rates changes are necessary but would like more information on what causes increases.

Reliability



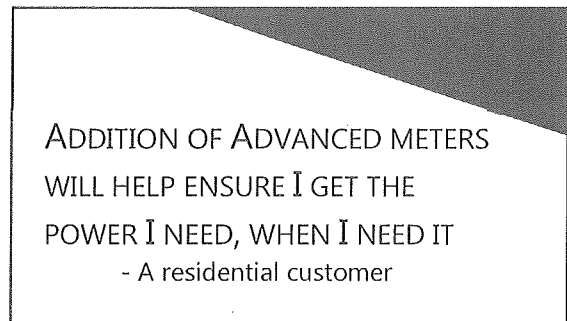
Customers gave City Light's record with power reliability a high rating. Concerns with reliability were not among the top 5 concerns in the survey results, and it was rarely mentioned during in-person meetings.

Commercial customers, who rely on reliable power to conduct business, rated the need for a continued focus on reliability higher than did residential customers. Customers in attendance understand the need for

increased attention to infrastructure, and hope that with the full deployment of advanced meters, the number and duration of outages will be reduced in the future.

Infrastructure

Customers across the three groups recognize the improvements that City Light has made and will continue to make to its aging infrastructure. In particular, businesses and residents alike are optimistic about the service improvements that advanced meters will provide. The Seattle 2030 District expressed interest in Seattle City Light developing technologies that can scale quickly and efficiently as the utility continues work on infrastructure. The Manufacturing & Industrial Council expressed interest in diversifying power sources, both as an incentive to draw more businesses to Seattle and as a climate change precaution.



Operations

Overall, participants were engaged in learning how the utility operates. They had specific questions about Seattle City Light's annual budget, its debt service, revenue from wholesale power sales, and distribution plans. Participants at the Environmental Advisory Board presented additional operational concerns, particularly regarding performance measures, benchmarking, and system planning. A participant stated that for transparency, stakeholders should be involved in distribution planning because of the link with resource planning, in which they have a more active role.

A participant at the Community Partner forum was concerned that development costs were not distributed equitably among customers. The forum had discussion about how City Light managed development and debt. Similar discussions occurred in outreach sessions at the Seattle Chamber of Commerce Business Issues Forum and the Key Customers Forum.

Materials

In conducting stakeholder forums, several materials were used to present information and invite stakeholders to attend meetings. The invitation sent to stakeholders, a sample forum presentation, and preview document, are attached at the end of the report and can be found in Appendix D through G.

Limited English Proficiency (LEP) Stakeholders

City Light recognizes that it is important to reach historically underrepresented communities. To that end, in addition to sampling Utility Discount Program customers in our market research study, we worked with other City departments and local organizations to reach stakeholders with limited proficiency in English. Actions undertaken and currently in progress include:

- Text translated in the seven tier one languages (Vietnamese, Somali, Spanish, Cantonese, Mandarin, Filipino and Korean) inviting customers to participate in the market research study.
- Attendance at five Citywide Office of Planning and Community Development/Department of Neighborhoods/Office of Housing Open Houses. These open houses covered all seven City Council Districts and were hosted at the following locations:
 - Louisa Boren K-8, Delridge – 5/9/18
 - New Holly Gathering Hall – 4/28/18
 - Washington Hall, Central District – 3/29/18
 - Whitman Middle School, Ballard – 2/28/18
 - Hamilton Middle School, Wallingford – 1/30/18

The open houses focused on equity and featured information from the Growth and Livability Report, which addresses the challenges of growth and how the City is responding to many of those challenges through ongoing work and emerging initiatives. City Light helped to staff the utility table called "Providing Utility Services, Leading with Equity."

- Hosted a stakeholder forum specifically for the Community Partners group.
- Attended a forum specifically for Low-Income Providers.
- Contacted the Ethnic Chambers of Commerce Coalition, an organization that brings together seven ethnic chambers in the Greater Seattle area to provide a unified voice and increase cooperation on issues impacting their communities. City Light requested time at one of the coalition's upcoming meetings to be present and make available translated Strategic Plan materials for their members. They are considering this request along with other high priority meeting topics.
- Translated the Strategic Plan preview document into six tier one languages. They are available on the City Light Strategic Plan website.
- Notices of the updated strategic plan appeared in the following ethnic publications:
 - NW Asian Weekly – 5/3/18
 - Seattle Chinese Post – 5/3/18
 - International Examiner – 5/2/18
 - The Seattle Medium – 5/2/18
 - La Raza del Noroeste – 5/4/18
 - Northwest Vietnamese News – 5/4/18
 - Seattle Chinese News - 5/2/18
 - Runtanews.com - 4/26/28
 - Seattle Korean Weekly – 5/4/18
- Connected with the Seattle Office of Immigrant and Refugee Affairs to review their Ethnic Media Directory and understand which ethnic media outlets cover issues for immigrant and refugee communities.

Employee Outreach

Current Culture Employee Survey

In the fall of 2016, City Light launched Current Culture, our employee engagement survey. It was an important effort to identify where City Light is succeeding and where there are opportunities to improve. The results of Current Culture were included in the analysis of stakeholder input for the strategic planning effort and will guide us as we move forward. Over 1,100 employees participated in the survey with a participation rate of 68%. The results from this survey were incorporated into the Strengths, Weakness, Opportunities, and Threats (SWOT) analysis that was foundational to the beginning of the 2019 – 2024 Strategic Planning process.

All Employee Messages

Other employee outreach included three All Employee messages released in Network, City Light's employee newsletter, on the following dates:

September 11, 2017

December 11, 2017

March 12, 2018

Online Presence

City Light Strategic Plan Website: <http://www.seattle.gov/light/stratplan/>

Appendices

The appendices for the Outreach Summary are available at this link:

http://www.seattle.gov/light/stratplan/docs/Outreach_Summary_Appendices.pdf

Seattle City Light Review Panel

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

May 7, 2018

Sent via email and hand delivery

Honorable Jenny A. Durkan
Mayor, The City of Seattle
600 4th Ave, Seattle, WA
7th Floor
Seattle, WA 98104

RE: Review Panel Recommendations on 2019-2024 City Light Strategic Plan

Dear Mayor Durkan:

We are pleased to submit to you our recommendations with respect to the proposed City Light Strategic Plan for 2019-2024 (the "2019 Plan"). We support the priorities and initiatives in the 2019 Plan, but for the reasons laid out below, we do not endorse the accompanying rate path. Our primary concern with the current draft of the Plan is the projected revenue requirement and implications for electricity rate increases over the next six years.

As a Panel, we are ringing the alarm bell: it is time for the City to place much more focus on controlling the Utility's costs going forward. Continual rate increases that significantly outpace the rate of inflation are threatening our diverse economy. The projected rate of growth in the City Light's operating and capital costs – and thus, electricity rates – is not sustainable, particularly now that we have confirmed what was only suspected in 2016: City Light has entered a new reality of declining retail demand that is projected to continue for the foreseeable future. Major effort is required to reduce the trajectory of growth in operating and capital costs at City Light, and this should be a high priority for the City's leaders and the Utility on behalf of a diverse, equitable future that benefits everyone.

The Planning Process

This is a new strategic plan. The original 2013-2018 strategic plan ("Original Plan") was adopted in 2012, and updated every two years (the "2014 Update", and "2016 Update", collectively referred to as the "Updates"), on a rolling six-year basis. The Review Panel, with evolving membership, has been in place since 2010 to advise the Utility, Mayor and Council on development of the strategic plan and other issues. Since June of 2016, we have met 24 times, for three hours per meeting, considering the issues in this new 2019 Plan. While we are not a Panel of experts, our members represent a wide range of customers served by City Light—from

Honorable Jenny A. Durkan

May 7, 2018

low income households, to working families, to industrial customers, to energy efficiency advocates, to cities receiving franchise services from City Light.

Customer Outreach

In addition to engaging with the Panel, the Utility has completed an impressive outreach effort to customers as part of the strategic planning process. Feedback garnered from this outreach was positive, and noted four themes with respect to what customers want from City Light: reliability, affordability, rate predictability and support for clean energy. However, it should be noted this input was secured before the rate path was developed.

Success since Adoption of the 2013-2018 Strategic Plan

City Light has had important successes in many areas as a result of adoption of the Original Plan. It is important to mention these, because we strongly support continuation of the current strategic planning process. Since 2012:

- There has been solid progress on the vast majority of over 30 initiatives in the Original Plan—the focus of which was on upgrading and modernizing aging infrastructure. Two initiatives warranting particular mention are implementation of the outage management system and completion of the Climate Adaptation Plan.
- Enrollment in the Utility Discount Program has increased dramatically (while this shifts costs to other customers, it is important progress in terms of social equity—current enrollment is estimated at 30-50% of total eligible households).
- The Utility has maintained the rate path to which it committed for the first two years of the Original Plan and the first two years of both Updates.
- Financial savings targets have been met.
- A new retail power sales forecast methodology has been developed, and the 2019 Plan incorporates a forecast based on this updated methodology.

The strategic planning process continues to serve its fundamental goal of syncing operations and capital planning to the Utility's budgets and rates, promoting policy-driven budget decisions.

Current Challenges

The context in which the Utility finds itself has evolved significantly since 2012. The most significant change is the arrival of something other utilities around the county have been experiencing for some time: *declining retail demand for power*. We first noted concern that this might be a long-term situation in 2014, and again in 2016—when we supported the need for a new forecast methodology.¹ That new forecast (which we received in January 2018, fairly late in

¹ The new forecast methodology was developed based on recommendations from an independent third party review of the prior methodology. With input from a technical team from across the Utility, the new

Honorable Jenny A. Durkan
May 7, 2018

the planning process) confirms that indeed, we can expect average annual growth rate in *retail electricity sales to decline by an estimated -0.4% per year over the next 20 years*. This decline is the net result after considering economic growth (increasing demand) and increasing energy efficiency (reducing demand). And in fact, City Light has collected approximately *\$118 million less in retail revenue* than projected in the last five years due to lower retail demand than forecast – necessitating the issuance of approximately \$100 million in additional debt to support approved expenditures.

How can retail demand for electricity be declining as Seattle’s economy is booming? In part, it is due to the success of the Utility’s (and others’) energy efficiency efforts. The forecast estimates 2.0% to 2.5% annual reductions in retail demand due to efficiency – in appliances, building design and construction codes and standards, and utility incentive programs.

Residential consumption is projected to continue to decline as more of the population lives in multifamily housing. However, much of the cost effective programmatic energy efficiency has been harvested from the residential sector. The Utility is now increasing its energy efficiency focus on commercial customers. Very slow growth in demand is forecast from the commercial sector. Industrial power demand is forecast to decline slowly over the next 20 years, due to both a decline in employment from this sector (-0.2%/year) and new efficiencies.

The biggest cost driver for the Utility continues to be its *very large capital investment program*—which has been necessary in order to upgrade infrastructure. Debt service on capital spending and debt service coverage accounts for 48% of expected growth in revenue requirements over the next 6 years. The Utility’s debt service plus debt service coverage will account for \$402.5 million in rate revenues in 2019 (43% of the 2019 estimated total revenue requirement), growing to an expected \$508 million in 2024 (45% of the 2024 estimated total revenue requirement). See the bar chart at **Attachment 1** for a depiction of the historical growth in City Light’s debt service.

It is important to strengthen the condition of City Light infrastructure. At this point, however, we need more focus on controlling future capital costs. We note three challenges with respect to capital expenditure budgets:

- Major cost overruns have been experienced on some large projects—the Denny Substation and the new customer billing system – for various reasons.
 - The Denny Substation project had an early engineering cost of \$89 million, which grew to \$173 million within two years as urban design requests were added to the project, and a street vacation was necessitated by those changes. The project

methodology incorporates more refined assumptions regarding conservation potential, changes in consumer use patterns, and has a more robust weather normalization model. City Light staff expect the new methodology will decrease—but not eliminate—uncertainty in retail sales forecasts.

Honorable Jenny A. Durkan

May 7, 2018

was ultimately constructed for \$209.5 million. These costs do not include a second transmission line to the substation (\$66 million) or the build-out of the substation network (\$65.7 million).

- o The customer billing system experienced a 60% cost increase, from \$68 million to \$110 million.
- City Light is required to expend substantial funds to move its infrastructure due to many transportation projects (City, WSDOT and Sound Transit). For example, the cost of utility relocations required by the Alaskan Way Viaduct and Seawall projects is estimated at \$82.4 million in ratepayer dollars in the 2018-2024 period.
- Maintaining the rate path commitment in the strategic plan required deferring several capital projects, creating some concern about a future bow wave of capital spending.

Changes in energy markets pose new risks for City Light that could cause significant disruption in power demand. Third-party actors are seeking to compete in the same market space as the Utility. Wholesale power demand remains weak. The price of renewable energy and energy storage technology is declining, making them a more attractive alternative to traditional centralized electricity generation. Cyber-security risks are becoming more sophisticated. These changes must be addressed aggressively to ensure that City Light remains resilient.

Within the Utility itself, we see other challenges:

- There have been significant changes in leadership in recent years, and these are ongoing.
- Declines in *wholesale revenue* have required a 1.5% surcharge on customer bills since August 2016 in order to replenish the Rate Stabilization Account.

Fortunately, there are a few opportunities on the horizon to *increase revenue*, both of which would be addressed by initiatives proposed in the new 2019 Plan:

- Evolution of market opportunities to buy and sell interruptible power ("Western Energy Imbalance Market").
- Slow, but increasing adoption of electric vehicles (Utility funds are being used to promote growth in this area).

2019-2024 Strategic Plan

- **Plan Priorities**

The core priorities in the strategic plan have evolved since 2012, and it is important to note why this has happened. The Original Plan priorities—concepts which remain relevant and important—were:

- a. Improve customer experience and rate predictability
- b. Increase workforce performance and safety practices
- c. Enhance organizational performance
- d. Continue conservation and environmental stewardship leadership

Honorable Jenny A. Durkan
May 7, 2018

Given the Panel's concern about the continuing level of rate increases, we have asked that "affordability" be specifically identified as a new priority, rather than be subsumed under customer service. Because "affordability" means different things to different people, we want to clarify that our focus on affordability arises out of our concern about the fact that City Light's rates continue to increase faster than inflation.

On the positive side, in the last six years the Utility has made tremendous strides in workforce safety and improving its infrastructure: these priorities are now merged under the priority of "Continuing City Light's Core Business." The 2019 Plan priorities, which we support, are:

- a. Customer Service
- b. Affordability
- c. Clean Energy, and
- d. Continuing Progress on City Light's Core Business

We note that with the new billing system and impending implementation of automated metering infrastructure, customer service has and will continue to be an important priority. The City-wide emphasis on race and social justice has been embraced by City Light, to its credit. Customer service for all customers—be they large industrial customers, or Utility Discount Program Clients—needs to be a continued focus for City Light.

- **Baseline Expenditures**

As noted, we have an overall concern about rate of growth in baseline expenditures. We do not think this is sustainable in an environment where demand is declining. This challenge is exacerbated by the current rate structure. This is the primary concern we believe that the Utility, with the necessary support from the Mayor and Council, must address in the next few years.

- **Seven Initiatives**

The Panel supports the initiatives in the 2019 Plan. We commend the Utility for reducing the number and cost of proposed initiatives as compared to the Original Plan. Importantly, none of the new initiatives require additional revenue—they will be funded by shifting emphasis within existing budgets. That said, some components of these initiatives that appear to be discretionary spending without a revenue return or savings, could be reduced. We think it is now necessary to examine these and other cost saving opportunities. We also note that savings are projected from several of the new initiatives, but those savings are not built into the rate path.

- **Rate Path**

The Panel believes that the *immediate and direct focus of the City leadership and City Light leadership should be on controlling the Utility's costs*. This is necessary if we are to avoid a future

Honorable Jenny A. Durkan
May 7, 2018

of spiraling rate increases. *We need to see more focus on addressing this foundational change in City Light's economics.*

The growth in the Utility's costs since 2012 is illustrated in **Attachment 2**. While City Light has commendably met its revenue requirements in each of the first two years of the Original Plan and two subsequent Updates, each strategic plan Update—and the new 2019 Plan—has resulted in actual rates higher than were earlier estimated. Cost increases have been front-loaded into each plan and update, as they are again in the 2019 Plan. Lower cost increases projected for the out-years have not materialized.

In the next year or two, the biggest rate challenge is to address the decline in retail demand that is confirmed by the new forecast methodology. The 2019 Plan's proposed revenue requirements in 2019 and 2020 are lower than they would otherwise have been, thanks to substantial effort by the Utility to find ways to smooth the rate path, including removing some large capital projects from the capital improvement program assumptions.²

New approaches to rate design can mitigate rate pressure, and must be considered. We emphasize the importance of the initiative in the Plan to explore new rate design alternatives. Rate design is a separate issue from the growth in the underlying revenue requirement: *both need to be addressed.*

We support the priorities and initiatives in the Plan, *but at this time the Panel does not endorse the proposed rate path.* The reasons for this vary between individual Panel members, but the core concerns we have are:

- The rate increases are high, as noted, well higher than inflation, and we are concerned that there needs to be more urgency to address this;
- We do not see a plan in place for addressing the growth in the Utility's level of debt;
- We do not feel there has been sufficient transparency with respect to the Utility's costs and revenues;
- We received the updated demand forecast and the first draft of the financial forecast late in the process, and there is additional data we would like to investigate with respect to the Utility's underlying costs and revenues.

Panel Members David Allen, Sara Patton and Nina Sidneva have significant concerns about the rate path, but stop short of agreeing with the Panel's decision to not endorse the rate path.

We look forward to working with City Light to further study all of these issues.

² The first draft rate path presented to us by City Light staff, in January 2018, estimated annual increases in the six year revenue requirement/rate path as shown below, by year:

2019	2020	2021	2022	2023	2024
8.5%	3.5%	4.0%	3.1%	4.3%	4.1%

Honorable Jenny A. Durkan

May 7, 2018

- **Other Action Items for Consideration**

Our core concern with the Plan relates to the proposed rate path. We offer below some other actions that we believe would be constructive steps for the Utility to pursue. Some of these will require additional funds or redeployment of staff.

- Step up the focus on the changing electric utility industry, particularly the risks posed by third-party actors that pose risks of substantial sudden drops in demand for electricity or other services currently provided by City Light. If City Light is to be resilient in the face of growing uncertainty, it must deploy additional staff time to plan how best to guard against—or take advantage of—these changes. We recommend the Utility be requested to submit a plan for its response to these issues to the Panel within the next year or two at most, for our consideration and comment, and subsequent transmittal to the Mayor and Council.
- Undertake a holistic benchmarking effort. This has not been done since 2011, although we commend the Utility for its ongoing targeted, programmatic benchmarking work.
- The current Rate Stabilization surcharge could be eliminated and the anticipated 2019 rates reduced by 2% or more if, as we have recommended, the Utility is allowed to proceed to sell its surplus property at 8th and Roy.
- Examine options or efficiencies to reduce the increasing cost of central services that City Light is required to utilize.
- Reconsider the scope and scale of discretionary programs that are adding to the Utility's costs. As noted, we think it is important to examine whether these provide some options for cost savings.
- Continue to incorporate financial savings targets in the 2019 Plan. With considerable effort the Utility has met all its prior financial savings targets included in the Original Plan and Updates.
- As we suggested in 2016, it would be helpful to create and track a metric that shows how actual customer bills are impacted versus the projected revenue requirement: consumer conservation action can mean that actual bills rise less than the revenue requirement.

Conclusion

The Panel supports the 2019 Plan, with the exception of the proposed rate path, and we continue to strongly support the strategic planning process. The process provides an important longer-term strategic focus on the choices before City Light.

City Light has had many successes since the strategic planning process was launched in 2010. Utility leaders have appropriately focused on stewardship and maintenance of the Utility's infrastructure and employee safety in recent years, and that focus has paid off. City Light has been carbon neutral since 2005: we are participating in a global transition away from carbon

Honorable Jenny A. Durkan

May 7, 2018

that City leaders, the Utility, and its customers can be proud of. Looking forward, we anticipate green power renewable energy and the electrification of transportation will play a growing part in our electric future.

We commend City Light staff, as well a Council and Budget Office staff supporting the Panel, for their responsiveness to our questions and their frank engagement with us on the challenges facing the Utility. Their expertise and work on our behalf is deeply appreciated.

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

Sincerely,

Members of the City Light Review Panel



Gail Labanara, Panel Chair

Panel Position 9:

Suburban Franchise
Representative



Patrick Jablonski, Panel Vice Chair

Panel Position 6:

Industrial Customer



Nina Sidneva

Panel Position 1:

Economist



Cal Shirley

Panel Position 2:

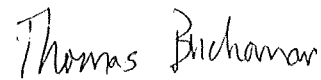
Financial Analyst



Sara Patton

Panel Position 3:

Non-Profit Energy
Efficiency Advocate



Thomas Buchanan

Panel Position 4:

Residential Customer



David Allen

Panel Position 5:

Commercial Customer



Leon Garnett

Panel Position 7:

Low-Income
Communities Advocate

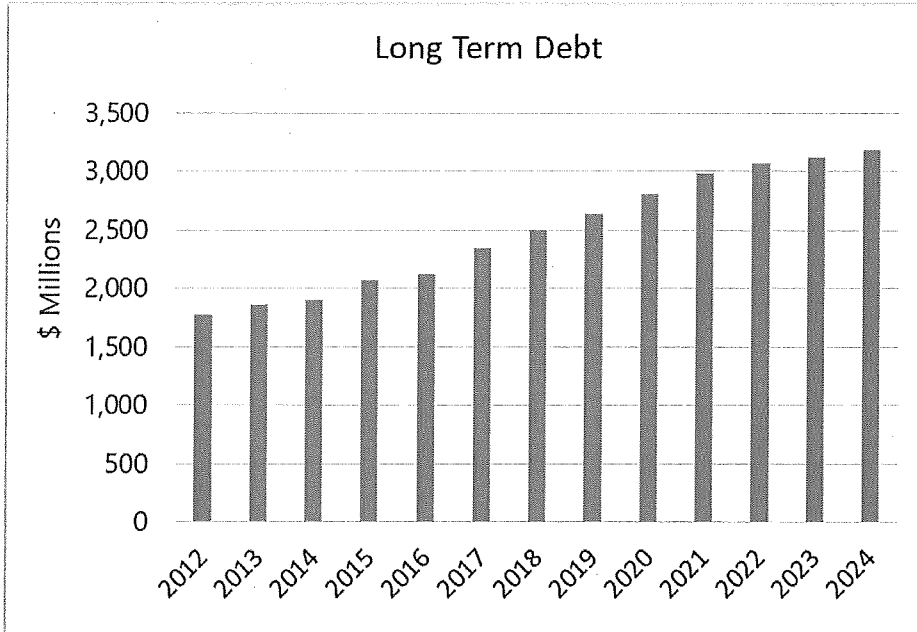
John Putz

Panel Position 8:

At-Large Customer

cc: City Councilmembers
Deputy Mayor David Moseley
James Baggs, Interim CEO, Seattle City Light

Attachment 1: Seattle City Light Long Term Debt, 2012 - 2024



Honorable Jenny A. Durkan

May 7, 2018

Attachment 2: City Light Rate Revenue Requirement* Increase Over Previous Year

<i>Strategic Plan Estimate</i>	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
2012 <i>Projected</i> 4.7% avg.	4.4%	5.6%	4.1%	4.8%	5.3%	3.9%						
2014 <i>Projected</i> 4.4% avg.			4.2%	4.9%	5.0%	3.9%	3.6%	4.9%				
2016 <i>Projected</i> 4.3% avg.					5.6%	5.6%	5.0%	3.6%	3.1%	2.5%		
2018 <i>Projected</i> 5.07% avg.							6.5%	6.5%	4.8%	4.2%	4.3%	4.1%
Actual 5.05% avg.	4.4%	5.6%	4.2%	4.9%	5.6%	5.6%						

*Excludes Rate Stabilization Account surcharges and Bonneville Power Administration Pass Through to customers.

Seattle City Light Review Panel

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

June 26, 2018

Sent via email and hand delivery

Councilmember Teresa Mosqueda, Chair
And Members, Select Committee on the 2019 City Light Strategic Plan
Seattle City Hall
Seattle, WA 98104

Dear Councilmembers:

We write in response to the June 14 request from Councilmember Mosqueda seeking the Seattle City Light Review Panel's reaction to the Mayor's changes to the proposed City Light's 2019 Strategic Plan. We conferred as a full Review Panel on June 26, 2018.

The Panel supports the Mayor's addition of targeted reductions to the revenue requirement in the 2019 Strategic Plan. It is our hope that these cost control measures will be made without increasing the operating risks for the Utility, while maintaining safety and reliability in City Light's operations, and not simply shifting costs to the future. With careful consideration of the implications and options, we are optimistic these goals can be met. We see these reductions as a first step in the need to fundamentally re-examine how to preserve the Utility's long term financial health in light of the new reality of declining retail demand for electricity.

The issue of rate design was raised at the June 14 Select Council session on the Strategic Plan. We note that rate design is a core part of the Review Panel's mission approved by the City Council. The nine members of the Review Panel are prepared to take on that task over the next year. Stakeholder engagement is an important part of rate design, and stakeholder outreach is also part of our mission. Rate design is a challenging policy discussion, as it is essentially a zero-sum game: any changes to the current design mean some will pay more, while some may pay less. And there is still the issue that Seattle City Light faces declining demand with a consumption based rate model. Identifying agreed upon principles to guide rate design will be critical: we look forward to engaging with you on that subject. To ultimately be successful, we will need the Mayor's and Council's backing.

With respect to the seven action items proposed in our May 7 letter to Mayor Durkan, we hope that these will be prioritized for completion within the Utility's 2019-2020 budget and work plan.

We thank you for your interest in our views. We continue to strongly support the Review Panel process and structure as created by the City Council.

Sincerely,



Patrick Jablonski, Chair
City Light Review Panel



Gail Labanara, Vice-Chair
City Light Review Panel

CC: Mayor Jenny A. Durkan
James Baggs, Interim CEO, Seattle City Light
Members, Seattle City Light Review Panel

A&R Solar, Climate Solutions, Emerald Cities, Got Green, Latino Community Fund, MacDonald-Miller, NW Energy Coalition, NW Energy Efficiency Council, Puget Sound Sage, Robert K. Harmon & Company LLC, Washington Conservation Voters, Washington Environmental Council

July 24, 2017

Energy and Environment Committee
Seattle City Council
P.O. Box 34025
Seattle, WA 98124

Dear Chair Sawant, Councilmembers Juarez, Gonzalez and Bagshaw,

As the Council considers strategies to address City Light's revenue challenges we urge Council members to consider a variety of options for rate design changes before settling on any one approach. Utility rates and rate design affect not just how much electricity we use and how it's generated, but also raise questions about how the cost burden should be shared among customers and what the customer's role will be in shaping energy demand.

We understand the revenue trials facing City Light when wholesale market prices reduce revenue from sales of surplus power and demand for power from customers is flat, yet costs for maintaining and operating the electricity system for the City are rising. Utilities across the region and country are facing similar challenges. We all strive to have a more efficient, flexible and resilient utility and how revenue is collected and invested in energy services over the long-term is critical.

To date, City Light has presented a snapshot of its revenue issues, cost allocation assessment, and a brief overview of rate design options. As part of the Council's education and deliberation process, we strongly recommend this Committee work with the Regulatory Assistance Project (RAP) on rate design. RAP works with public and private utilities and governing boards all over the world and is uniquely qualified to speak to the many rate design approaches utilities have considered or implemented and what are the most effective strategies to meeting the needs of the City and its customers.

Some rate design approaches raise serious concerns in our minds, particularly ones that increase the fixed bi-monthly customer charge and decrease volumetric charges. This type of rate design can have a very negative impact on low and moderate-income households, and discourage the installation of distributed renewable power, such as solar. In addition, rate design that shifts more of the system costs into fixed charges will reduce energy efficiency. This will increase energy use over time and hence, could require more infrastructure over time. The result could raise costs for all customers. This type of rate design also removes

customer's ability to control their monthly bill, and to contribute to efforts to keep overall system costs low. Perhaps most importantly, it does not represent a fair accounting of the costs to serve a particular customer, because costs that vary with usage are now assigned uniformly across an entire class of customers. In fact, typically this type of rate design ends up costing low users the most in terms of increased monthly bills.

Here are some basic principles that should guide City Light and the Council's thinking when evaluating rate design changes.

1. Rates should be straightforward and understandable.
2. Rates should keep the utility viable and provide relatively stable cash flow and revenues from year to year.
3. Rates should be generally predictable, such that customers experience only minimal unexpected changes.
4. Rates should maintain fairness to all customer classes and should not unduly discriminate against any group of customers - no special rates, tariffs or fees should be created or imposed exclusively for distributed solar or other renewable customers in a rate class, either individually or as a class.
5. Rates should promote economic efficiency in the use of energy as well as competing products and services while insuring the level of reliability desired by customers.
6. Rates, combined with subsidy and discount programs, should be affordable so that all households have access to electricity.
7. Rates should recover system costs in proportion to how much electricity customers use, and when they use it and customers delivering power to the grid should receive full and fair value for the power delivered -- no more and no less.
8. Rates should encourage a clean, efficient energy system and maximize the value of new technologies, including beneficial electrification, to reduce greenhouse gas emissions and local air pollution.
9. Rate structures should be designed to balance long and short-term marginal value and reduce overall system costs and risks.

The groups signing this letter are eager to be involved in revenue stabilization and rate design discussions and want to help shape both the process and the outcomes. There are other rate design options to consider and we hope the Council will give full consideration to other options as alternatives to an increase in the fixed bi-monthly customer charge. Fixed customer charges should only cover individual customer-related costs (e.g. meter, service drop, meter reading, and billing and collecting).

This is a very important topic and one that deserves careful consideration and broad and inclusive participation. We look forward to working with the Council and City Light to find the best outcome for the City, customers and the environment. For your questions and follow-up please contact Nancy Hirsh, NW Energy Coalition at nancy@nwenergy.org or 206-621-0094.

Respectfully,

Dave Kozin
CFO/COO, A&R Solar

Vlad Gutman-Britten
Washington Director, Climate Solutions

Steve Gelb
Executive Director, Emerald Cities

Jill Mangaliman
Executive Director, Got Green

Peter Bloch Garcia
Executive Director, Latino Community Fund

Perry England
VP Building Performance, MacDonald-Miller

Nancy Hirsh
Executive Director, NW Energy Coalition

Stan Price
Executive Director, NW Energy Efficiency Council

Kim Powe
Executive Director, Puget Sound Sage

Rob Harmon
Principal, Robert K. Harmon & Company LLC

Joan Crooks
CEO, Washington Conservation Voters and Washington Environmental Council

cc Councilmember Mike O'Brien
City Light General Manager/CEO Larry Weis
City Light Director of Government Relations Maura Brueger