

Attachment 2

Seattle City Light Review Panel

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

CLRP@seattle.gov

May 3, 2022

Mayor Bruce Harrell
The City of Seattle
600 Fourth Avenue
P.O. Box 94749
Seattle, WA 98124-4749

RE: City Light Review Panel Comment Letter on Proposed 2023-2028 Seattle City Light Strategic Plan Update

Dear Mayor Harrell:

This letter presents our comments on the proposed Seattle City Light (City Light) Strategic Plan Update for 2023-2028 (the Plan) in fulfillment of our duties as members of the City Light Review Panel set forth in Ordinance 124740.

We are pleased to endorse the Plan and support its adoption as presented. It has been less than one year since submittal of the prior strategic plan covering five years 2022-2026 (2022 Plan). This Plan puts us back on the 6-year planning trajectory originally established for City Light's strategic plans. Since last May, we observe that City Light has made good progress towards the objectives outlined in the 2022 Plan, adapting to meet the challenging times in which we find ourselves.

Challenges of the Current Environment

In our letter submitted last May endorsing the 2022 Plan, we were still in the throes of the COVID pandemic and unsure of the future. While the worst of the public health crisis appears to be behind us, we are now experiencing other impacts of the pandemic that are deeply challenging for both City Light and our local economy. Three key challenges in this new "Post COVID Reality" must be acknowledged. At the top of the list is inflation, the highest in 40 years, impacting all costs of doing business in both government and the private sector. Second, it is a very difficult environment for hiring. City Light has a 16% vacancy rate. Third, supply chain disruptions worldwide are impacting City Light's ability to complete capital projects on time and on budget.

In the face of these challenges, we are impressed that City Light's near-term upward adjustments in the proposed rate path are relatively minor. We support the proposed rate path while acknowledging we will need to watch the situation carefully. It is a very challenging time to project rates given current financial and other risks. If the inflation, hiring, or supply chain issues worsen, we need to be ready to consider changes to the Plan. We commend City Light for continuing to successfully operate through the challenges of the last two years, and now transition the workforce back to the office.

Our comments below provide some additional input on the Plan's five "Business Strategies." These comments are not prioritized and are presented in the order in which the Business Strategies are presented in the Plan.

Business Strategy: Improve the Customer Experience

- Race and Social Justice. The Panel is impressed with the race and social justice work that the Utility is doing, most recently around the budget. This work impacts all aspects of City Light's operations. We will continue to monitor progress here.
- Growing Accounts Receivable Balance. This continues to be a challenge for the Utility. We appreciate the customer-focused changes in City Light's approach to engaging with customers who are in arrears. We are interested in seeing a target Key Performance Indicator (KPI) that reflects the Utility's commitment and represents progress; and the Panel is interested in monitoring status and performance here on a periodic basis.

Business Strategy: Create our Energy Future

- Helping Customers Meet Our Climate Goals. Seattle has adopted aggressive goals to decarbonize and City Light is central to that effort. But the transition away from carbon fuels depends on customers being able to find, and afford, electric furnaces, heat pumps, electric vehicles, and the like. We support City Light's efforts to explore ways to help customers make the transitions called for by City policies. Further expansion of these efforts is likely needed, including strong regional efforts, grant or loan programs, furthering electrification action plans, and exploring further opportunities with commercial customers as well.

Business Strategy: Develop Workforce and Organizational Agility

- Vacancies. The "great resignation" has impacted City Light's ability to fill positions. We will track the Utility's efforts to adjust hiring and recruiting practices to address this challenge, including efforts to train and develop existing employees for new opportunities. The vacancy rate has grown to higher levels, reflecting the realities felt across the city. Given this key risk, the Panel wishes to monitor associated KPI's and track these efforts and performance. This strategic plan period involves significant transitions, challenges, and change. SCL has initiated a major change management process to adapt to the future of work. We are monitoring progress of this initiative and will continue to review related action plans as they are implemented.

Business Strategy: Ensure Financial Health and Affordability

- Financial Transparency. The Panel appreciates the briefings we regularly receive on financial issues facing City Light—the financial policies, rate path challenges and rate design. Debt service coverage and cash financing ratios for City Light’s capital improvement program are important indicators of the Utility’s financial health. While the Utility appears to be on track from a policy and projection standpoint, extra mitigation efforts may be required as the full impacts of inflation, supply chain disruption, unplanned emergencies, outstanding receivables, energy supply costs, capital project delivery, vacancy rate, and other operational factors unfold. The Panel realizes there are significant risks to manage and mitigate; that there are tradeoffs that will inevitably need to be made as budget, CIP and financial projections are revised; and that the current assumptions will ultimately be modified, based on actual performance during the Plan period. It is a major priority of the Panel to closely monitor financial performance and to give input to SCL and the City in support of responsible policies, strategies and decision-making as these adjustments are made. We also look forward to the Utility developing, in the coming year, a long-term debt strategy which ensures a sustainable and robust path for debt load given the unpredictability in load growth, borrowing costs and capital investment.
- Keeping Electric Service Affordable. As noted above, the changes to the proposed rate path are modest given the projected inflation and the uncertainties ahead. Affordability and modest increases will also depend on our revenue growth.
- Rate Design. Our letter accompanying the 2022 Plan noted City Light’s outdated rate structure under-recovers fixed per customer costs and lacks time of use rates that would benefit customers seeking to control their bills. Implementation of a new rate design has been delayed because of COVID. We are hopeful that the City will approve new rate design for City Light and implement that beginning 2024.

Business Strategy: We Power (maintaining core utility functions)

- We embrace the focus on maintaining core utility functions. One area of potential concern is the need to optimally maintain, replace and upgrade the utility assets and infrastructure. The Panel will want to periodically review the dashboards and KPI’s that the Utility has developed, along with performance against targets, and give recommendations as the associated budget years evolve. In addition, we support the environmental stewardship goals of the City and Utility and will be monitoring programs to help assure goals and implementation plans are realized.

Conclusion

City Light has been successful in charting a course through the pandemic thus far, and we commend them for this. New challenges of inflation, hiring difficulties, supply chain interruptions, and others are very daunting. City Light must balance financial necessity with continuing to make progress on the Plan’s identified initiatives and investments in infrastructure. The Utility has had to re-prioritize to stay within the proposed rate path, and further re-

prioritization may well be needed. The Plan acknowledges these challenges, and we believe the Utility under its current leadership is well positioned to address them.

Again this year, we thank CEO Debra Smith, her staff team, as well as the staff from the City Council and Budget Offices all of whom support the work of the City Light Review Panel. It is a pleasure to work with such dedicated, excellent public servants.

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

Sincerely,

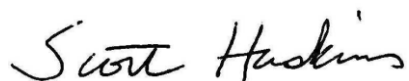
Members of the City Light Review Panel¹



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