CITY LIGHT REVIEW PANEL MEETING

Wednesday, September 20, 2023
9:00 – 11:00 A.M.
SMT 3204
—or—
Microsoft Teams Meeting
Proposed Agenda

Item	Lead
1. Welcome *(5 min.)*	Julie Ryan, Facilitator
2. Public Comment *(5 min.)*	
3. Standing Items: *(10 min.)* a. Chair's Report (Mikel) b. Review of agenda (Julie Ryan) c. **Action**: Review and approval of meeting minutes of June 22, 2023 d. Communications to Panel (Leigh Barreca)	
4. Debt Strategy White Paper (*45 min.*)	Kirsty Grainger/Carsten Croff
5. General Manager Update (*25 min.*)	Mike Haynes (Interim GM)
6. Strategic Plan Update (*30 min.*) a. RP roles vis a vis the 2025-2030 SP b. Draft 2025-2030 Strategic Plan schedule c. Confirm 2025-2030 Strategic Plan priorities	Leigh
d. Q2 2023 Strategic Plan Report	Brian Taubeneck
7. Adjourn	

Next Meeting: Wednesday, October 18, 2023

City Light Review Panel Meeting
Meeting Minutes

Date of Meeting: June 22, 2023 | 9:00 – 11:00 AM |
Meeting held in SMT 2821 and via Microsoft Teams "Draft"

MEETING ATTENDANCE					
Panel Members:					
Anne Ayre	√	Leo Lam	√	John Putz	√
Mikel Hansen		Kerry Meade	√	Tim Skeel	√
Scott Haskins		Joel Paisner	√	Oksana Savolyuk	√
Staff and Others:					
Debra Smith		Jen Chan	√	Julie Ryan (Consultant /RP Facilitator)	√
Kirsty Grainger	√	Mike Haynes	√	Craig Smith	√
Jim Baggs		DaVonna Johnson		Michelle Vargo	√
Kalyana Kakani	√	Emeka Anyanwu		Maura Brueger	√
Julie Moore	√	Chris Ruffini	√	Leigh Barreca	√
Greg Shiring	√	Carsten Croff	√	Angela Bertrand	√
Eric McConaghy	√	Caia Caldwell		Brian Taubeneck	√
Jeff Wolf	√	Karin Eastby		Jason Adams	√

Welcome and Introductions. The meeting was called to order at 9:02 a.m.

Public Comment. There was no public comment.

Standing Items:

Chair's Report. Mikel Hansen was not in attendance. There was no report.

Review Agenda. Julie Ryan reviewed the agenda.

Approval of May 11, 2023, Meeting Minutes. Minutes were approved as presented.

Communications to Panel. Leigh Barreca reported that she had received an email from a customer inquiring if City Light procedures could be altered so their surplus (solar) electricity will go first towards paying my "base, or meter charge" before being put on the market. This inquiry was referred to the internal escalation process and was answered by a member of SCL Customer Energy Solutions staff.

We have new administrative staff. If you receive email from Bridget Molina, that is communications from our team related to Panel business.

Julie Ryan advised the Panel that the next Review Panel meeting would be September 20, 2023. In the fall the Panel will begin working with City Light on the Strategic Plan update.

General Manager's update. Presented by Jen Chan.

1. Financial Highlights –

    - City Light's financial outlook for 2023 is pretty good. Our projected **debt service coverage ratio of 1.88X** for 2023 is above the 1.80X minimum target but below the budget/plan of 1.92X.

    - Why is our outlook good? Mostly: **strong retail demand** (+$30.4M). It was a cold Jan-Apr, which increased demand from heating. But also, cooling demand is on the rise. (All those AC window units people are purchasing each heat wave are really adding up! Heat pumps are contributing too.) We are expecting that cooling demand will be high this upcoming summer and have updated our load forecast to reflect this.

    - Also helping is that our **O&M spending is slow/low**. ($10.0M below Plan) We are running well under budget — vacancies are probably a big contributing factor to this.

    - **$ diverted into the RSA to avoid a rate surcharge – As the Panel knows, w**e are transferring operating cash into the RSA to avoid a rate surcharge this year, and our 2023 coverage ratio would be excellent but for $53M in planned operating cash transfers to the RSA.

    - **Wholesale conditions continue to be not good** - Winter, dry conditions, high retail demand, and unfavorable market prices find us spending more on the wholesale market for purchases of supplemental power than we are realizing from sales. The snowpack came down fast in May, flooding the market and tanking prices for everyone.

2. Newhalem Wastewater Treatment Plant – City Light received an Outstanding Performance Award from the Washington State Department of Ecology (Ecology) in recognition of the Newhalem Wastewater Treatment Plant's excellent compliance with its water quality permits. The Newhalem plant, located at the Skagit Hydroelectric Project, is one of 109 plants that achieved this status in 2022 out of more than 300 eligible plants statewide. To determine the awardees, Ecology evaluated wastewater treatment plants on permit conditions such as regularly meeting numeric effluent limits, conducting monitoring, and reporting data as required. Wastewater treatment plants are complex facilities that deal with everything homes and businesses flush down the drain. While every facility is unique, they all rely on certified wastewater operators for proper operation and maintenance. Newhalem is one of 28 facilities this year to have earned the award at least 15 times in the past.

3. Skagit staff respond to wildfire – Around 3 p.m. on May 31, Senior Boat Captain Erik Davis reported the presence of a wildfire in close proximity to the Buster Brown Boat-In Campsite. This location is situated approximately 150 yards downhill from the Skagit transmission lines, as well as the Diablo-Ross Tie Right-Of-Way.

   In response to this urgent situation, a well-coordinated crew was immediately assembled, and Skagit's Fire Brigade was alerted by Skagit 911. A team comprised of Fire Brigade members and other Skagit personnel promptly mobilized, equipped with essential hand tools and backpack fire pumps, following the preliminary evaluation. This skilled team promptly engaged in fire suppression activities while simultaneously establishing an effective perimeter. With the perimeter successfully established, the crew effectively divided their efforts. A portion of the team maintained the perimeter's integrity, while others retrieved a fire pump. Upon arrival at the site, this fire pump proved to be instrumental in effectively suppressing the fire, safeguarding not only the SCL property but also the nearby North Cascades Institute/Environmental Learning Center. During suppression / mop up activities, a small crew from the North Cascades National Park arrived onsite to monitor the fire and take command of the situation.

4. APPA Conference – The American Public Power Association (APPA) National Conference was held in Seattle on June 16 – 21. APPA is the voice of not-for-profit, community-owned utilities that power 2,000 towns and cities nationwide. It represents public power before the federal government to protect the interests of the more than 49 million people that public power utilities serve, and the 96,000 people they employ. It advocates and advises on electricity policy, technology, trends, training, and operations.

   At the conference, attendees from across the country explored how changing policy, technology, and lifestyles are reshaping the energy industry and how that impacts communities. Public power leaders and policymakers engaged with visionaries, experts, and peers to exchange strategies and solutions and discover tools for future success.

   The City of Seattle/City Light presented at two sessions: *Collaborating with Tribes on Hydropower Relicensing and Licensing* with Tim Reynon, the City of Seattle Tribal Relations Director and Matt Love, a member of our Skagit Relicensing legal team; and *Exploring Utility and Transit Partnerships* with SCL's Lucie Huang, Strategic Technology & Electrification Engineer, who will discuss our work with King County Metro to electrify transit.

   Q: Any updates on the search for the general manager?

   A: The job description has been posted. The search is being conducted by the Mayor's Office. The Seattle Department of Human Resources has reached out to the Executive Team to serve on interviews and find out what the needs of the utility are. Their goal is to spend the summer recruiting with at target to find someone by the mid/end of August. However, they do want to give due diligence to finding a good replacement.

   (Three panel members shared with the group that they are on the search committee.)

Strategic Plan Priority: We Power Mike Haynes (Assistant General Manager), Michelle Vargo (Chief Operating Officer), Angela Bertrand (Strategic Advisor) and Jason Adams (Strategic Advisor) presented. The presentation materials are in Panel packet. The presentation provided information on the many projects, initiatives, and activities (PIA) that these teams are engaged in to support the "We Power" strategic priority in the City Light Strategic Plan. The teams presented work completed in 2022 and upcoming initiatives for 2023 in the following areas:

a. Division Dashboards
b. Skagit Hydro Project Relicensing
c. Investments in Core Infrastructure

Maura Brueger noted that City Light will be filing 6 applications for federal grants in the fall, under the Department of Energy's Section 247 (hydro) grant process, as part of the Infrastructure Investment and Jobs Act.

Q: Aside from the tribes, are there other groups that you need to negotiate with?
A: All the parties participate in a comprehensive settlement agreement. This agreement will be folded into the license order and will include additional details such as fish passage and estuary improvements.

Q: Are you feeling good about the negotiations overall?
A: One of Debra's legacies will be the good relationships we established through this process.

Q: Does SCL incorporate an option review that analyzes financial, social, and environmental benefits, costs, and risks to choose the best value options for customers and communities? If not, on what basis are the specific individual projects and programs chosen for funding?
A: For projects over one million dollars, many of those elements you called out are included in that intake process. Large projects are required to submit a business case that includes cost/benefit information. The priority scoring tool incorporates compliance and asset management requirements. The review also includes environmental considerations and race and social justice principles.

Q: Has the interim General Manager been formally named?
A: Yes, Mike Haynes is the interim General Manager as of July 1.

Adjourn: Meeting adjourned at 10:32 a.m.

Next meeting: September 20, 2023, 9:00 – 11:00 a.m.

Seattle City Light

CITY LIGHT DEBT STRATEGY

EXECUTIVE SUMMARY

Part of implementing City Light's 2023-2028 Strategic Plan is developing an official strategy for developing an optimal mix of funding for the capital plan and managing the growth in overall debt. As part of this process, City Light reviewed its current policies and practices and proposes changes to its financial policies and rate setting strategies. The proposed changes will provide flexibility when setting rates, ensure adequate annual financial performance and manage the amount of outstanding debt. The proposed changes to the financial policies include:

1. Updating the target debt service coverage
   - *at least* 1.80x in any given year and the 6-year rolling average greater than 1.90x.
2. Refining the target for funding of the capital plan from operating cash
   - Six-year average operating cash funding greater than 40% of *net* capital requirements.
3. Introducing a leverage target
   - Debt-to-fixed asset ratio less than 60%.
4. Introducing a liquidity target
   - Days cash on hand is greater than 150 days.
5. Allow for temporary flexibility
   - suspension of capital funding and leverage targets is permissible for up to 5 years under exceptional circumstances.

The proposed financial policies serve as a minimum backstop to control debt. City Light's specific strategy for the next Strategic Planning period (2025-2030) is to exceed these targets when establishing the rate path. Doing so will further decrease City Light's reliance on debt and also provide more financial buffer if projected capital costs increase in the future. Using City Light's current financial forecast and stress tests indicate that City Light can absorb a significant amount of higher capital costs and still meet the proposed financial targets with only a modest impact to rates.

INTRODUCTION

Producing and delivering electricity to customers requires a significant amount of physical infrastructure, making electrical utilities among the most capital-intensive industries. This infrastructure, designed to last multiple decades, and associated installation require large upfront costs. City Light uses long-term debt as a tool to help spread out the cost recovery of these long-lived assets, which enables it to provide lower and more stable retail rates to its customer-owners.

The two primary ways public utilities fund their capital needs is by paying with operating cash or issuing debt. There is no right mix; each utility must determine how it uses debt based on individual factors, and debt practices may change over time. In general, too much reliance on debt can result in increased borrowing costs or prevent access to the bond market. Too little reliance on debt may disproportionally shift cost recovery for long-lived assets to current customers (i.e., higher retail rates in the near term).

City Light currently has some of the highest credit ratings among public utilities (Aa2 Moody's, AA S&P), providing it access to among the lowest available interest rates. The average effective interest rate over the past decade has been around 3.5%. Low borrowing costs can incentivize carrying a slightly higher debt burden, all else equal.

The City of Seattle has a debt policy that governs the use and terms of issuing debt for all City departments, including City Light. One of the main functions of the City's policy is to outline the legal requirements for issuing debt, such as the type of expenses for which debt may be used. The City's policies do not specifically address managing the Utility's overall debt burden. City Light has financial policies that outline targets for setting rates and sizing the capital program that indirectly manage debt. City Light's current specific financial policies call for: (1) setting rates to achieve 1.80x coverage and (2) managing the size of the 6-year capital program so that funding from operations is 40% or greater.

During City Light's 2023-2028 Strategic Planning process the City Light Review Panel encouraged City Light to develop an official strategy to manage the Utility's growing amount of outstanding debt. In response, City Light included developing a debt strategy as part of its business strategy for ensuring financial health and affordability within the Adopted 2023-2028 Strategic Plan.

City Light has reviewed its current policies and practices around debt issuance and while the current financial policies do a reasonable job at managing debt, they can be augmented in a new framework to improve overall debt management. The proposed debt strategy serves as a guideline for managing the overall amount of outstanding debt, as well as the amount of the capital program that's funded with debt. The strategy establishes debt-related metrics and associated targets used to manage debt. It also allows for flexibility in certain circumstances. The debt strategy is not a comprehensive set of financial policies used to put a ceiling on the size of the capital program but is used within the Strategic Planning framework to help guide the use of debt to achieve the desired balance between service levels and affordability for both current and future customers.

This paper outlines City Light's proposed Debt Strategy. First, it identifies and defines debt-related metrics and selects the optimal mix of metrics to manage to. Then it reviews how select metrics compare to peer utilities. Next, it proposes targets and guidelines for the metrics to be used to manage debt. It then provides an example of how the strategy would work with a significantly larger capital program (i.e., stress test). Finally, it lists the next steps forward.

DEBT RELATED METRICS

There are many types of debt-related metrics that provide context for an entity's outstanding debt amount and its general ability to make debt payments in the short and long run. This section describes some of the different categories of debt-related metrics. It also provides City Light's proposal for what primary metric to track and manage to for each category.

Financial Leverage refers to the relative amount of obligation or debt an entity has. A leverage ratio is a measure of financial leverage and provides a relative level of debt when compared to another financial metric. A leverage ratio helps determine if an entity is carrying too much overall debt based on its individual circumstances. It is important to look at outstanding debt relative to other characteristics because it helps provide context for the size of overall debt based on the size of an entity, often in terms of assets and/or revenues.

Common financial leverage metrics include:

1. Debt-to-Assets Ratio = Total Debt / Total Assets

2. Debt-to-Fixed Assets Ratio = Total Debt / Fixed Assets[1]
3. Debt-to-Equity Ratio = Total Debt / Total Equity
4. Debt-to-Capital Ratio = Total Debt / Total (Total Debt + Total Equity)
5. Asset-to-Equity Ratio = Total Assets / Total Equity

Recommendation: City Light proposes to use Debt-to-Fixed Asset Ratio as its primary leverage metric. All leverage metrics convey a slightly different measurement and no single metric is best for all utilities. The debt to fixed asset ratio most closely reflects the amount of outstanding debt relative to the level of infrastructure currently in service. It provides an approximate measure of the proportion of total infrastructure in service that has been funded with debt and ties closely with the associated Capital Funding Target (discussed later in this section). It is also a metric commonly used by rating agencies.

Coverage refers to an entity's ability to pay its financial obligations. A coverage ratio is a measure of available funds to pay its annual debt obligation. In general, a higher coverage ratio indicates a greater ability for an entity to meet its current financial obligations while a lower ratio indicates a lower ability. A few coverage ratios include:

1. Interest coverage ratio: The ability of an entity to pay its annual interest expense (only) on its debt

   Interest Coverage = Net Revenue / interest expense

2. Debt service coverage ratio: The ability of an entity to pay its annual debt obligations, including repayment of both principal and interest

   Debt Service Coverage = Net Revenue / Debt Service

3. Cash coverage ratio: The ability of an entity to pay its annual interest expense with its cash balance

   Cash Coverage = Cash / interest expense

Recommendation: City Light proposes continuing to use debt service coverage ratio as its primary coverage metric. This metric is the mostly widely used in public power and is also the primary coverage metric used by rating agencies.

Liquidity refers to funds that can be made readily available to satisfy ongoing cash flow requirements, including debt. Some common types of liquidity metrics include:

Current Ratio = Current Assets / Current Liabilities

Quick Ratio = (Cash + Accounts Receivables + Marketable Securities) / Current Liabilities

Days Cash on Hand[2] = Unrestricted Cash / ((Annual Operating Expenses – Depreciation) / Days in Year)

Recommendation: City Light proposes to continue to use days cash on hand (DCOH) as a primary liquidity metric since it is the most common liquidity metric used by rating agencies. This metric does not count the City's cash pool that is available to City Light for 90 days in an emergency without legislation and longer with legislation.

[1] Fixed Assets generally include undepreciated plant. City Light also includes Construction Work in Progress to smooth out the impacts of large projects.

[2] City Light, Moody's and S&P include the RSA as unrestricted cash for the purposes of calculating this metric.

Capital Funding Target measures the percentage of the capital program funded with operating cash. The City of Seattle does its capital planning on a 6-year basis, so this funding target is a 6-year metric that corresponds to the planning timeframe. The measure evaluates how much of the net capital requirements (i.e., the amount City Light is responsible for funding) are funded by operating cash and how much is funded by issuing debt. The capital funding target is closely related to the debt-fixed-asset ratio as they both measure the relative level of debt to the capital.

The calculation is as follows:

Capital Funding = Funding from Operations / (Total Capital Requirements – 3rd Party Capital Contributions)

Summary
City Light's proposed debt-related financial metrics are:

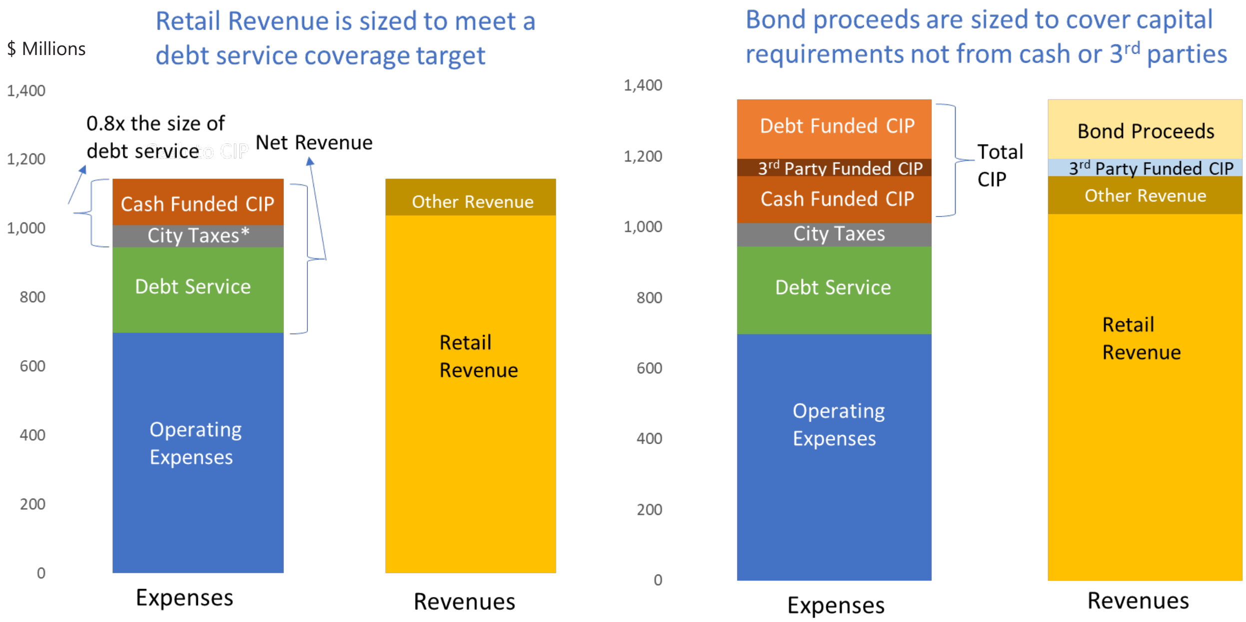
1. Debt Service Coverage
2. Debt-to-fixed assets ratio
3. Days Cash on Hand
4. Percentage of capital funding from operations (over 6 years)

HOW THE PROPOSED FINANCIAL METRICS ARE RELATED

City Light's proposed metrics are inter-related. The most notable relationship is debt service coverage and cash funding of the capital program as the debt service coverage level drives the amount of operating cash available for the capital program. Net Revenue is the difference between operating revenues and operating expenses. After Net Revenue is used to pay debt service and City taxes[3], the residual is used for cash funding of the capital program. Bond proceeds are sized to cover the remainder of capital requirements. Figure 1 shows an example that helps illustrate this this relationship.

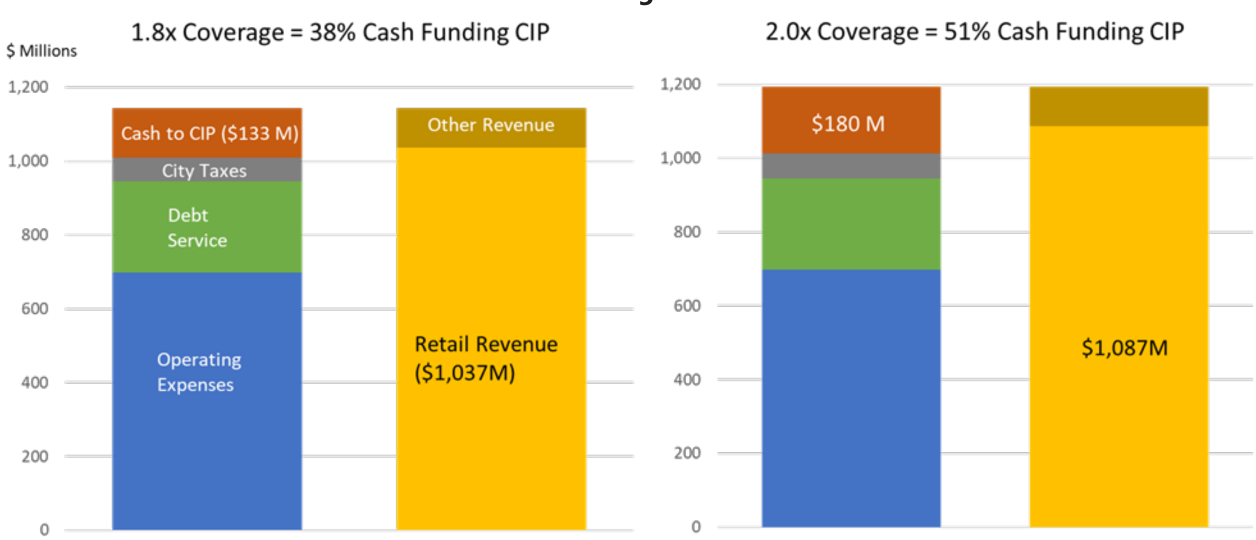
[3] Under City Light's bond ordinances, City taxes have not been included in operating expense for the calculation of debt service coverage since City Light is a department within the City of Seattle and the payments made to the general fund are considered second lien to debt service.

Figure 1



Therefore, higher debt service coverage will increase the amount of operating cash going to the capital program. Figure 2 illustrates how different debt service coverage levels impact the amount of operating cash available for the capital program. Under current conditions 0.2x higher coverage leads to around $50 million more operating cash available for the capital program. This example shows coverage increasing by solely increasing retail revenue (retail rates); however, it is possible to achieve higher coverage with a combination of reductions to operating costs and increases to retail revenue.

Figure 2



In general, higher coverage means less use of debt. It follows that higher coverage, over time, will result in a lower leverage (debt-to-fixed asset ratio). Since the leverage metric is looking at total debt and total fixed assets the impact from higher coverage in any individual year will be small but sustained higher coverage will gradually decrease the debt-to-fixed asset ratio. Maintaining higher cash balances (higher liquidity) will increase the reliance on debt as more operating cash is being held in reserve than put towards the capital program. At current operating expense levels an increase in 50 days cash on hand requires holding on to $106M more cash. This $106M could have been used to reduce the amount of future debt issued. Permanently increasing the DCOH target will result in a one-time impact of increased borrowing.

PEER COMPARIONS OF PROPOSED METRICS

Figure 3 shows comparisons of City Light with 34 peer public utilities for the proposed metrics.[4] The summary includes:

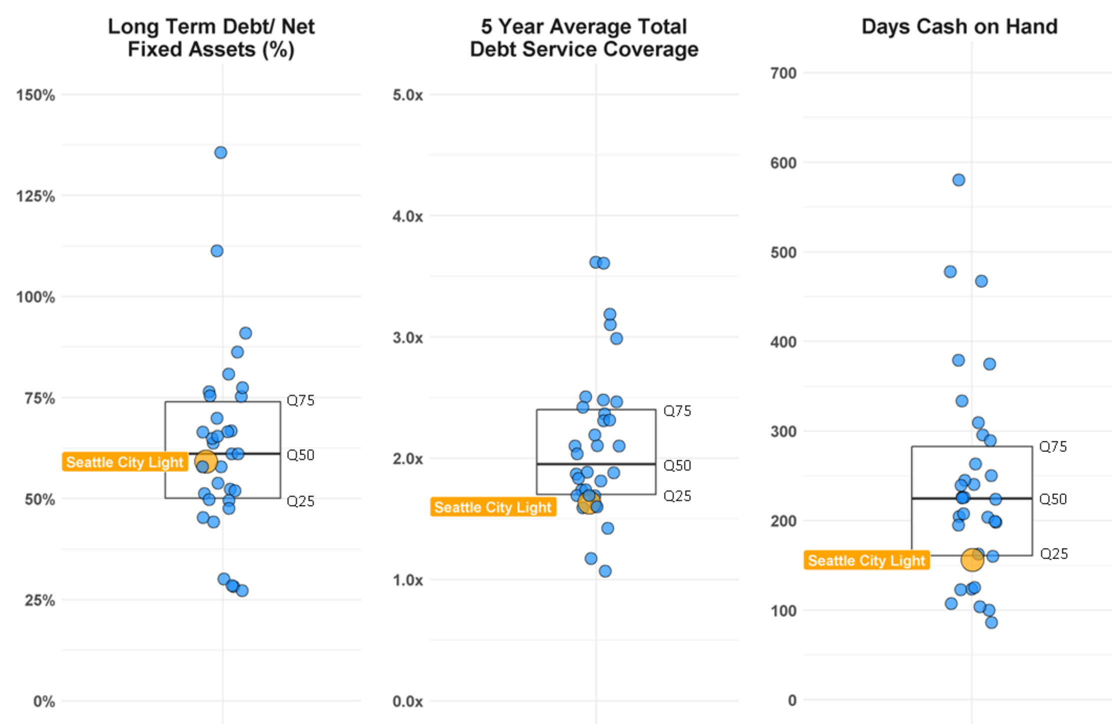
Debt-to-Fixed Assets: City Light is currently close to average compared to other utilities.

Debt Service Coverage: City Light is on the lower side, just under the 25th percentile[5]

Days Cash on Hand: City Light is on the lower side, just under the 25th percentile

More discussion on City Light's relative comparison will be included in the debt strategy proposal section.

Figure 3



[4] Data from Moody's Municipal Financial Ratio Analysis (MFRA) system as of October 18, 2022. Reflects public utilities with greater than $200M annual O&M expense who generate 20% or more of their own power requirements and rating in the "A" category or higher (34 utilities in total).

[5] Moody's calculation for Total Annual Debt Service Coverage = Net Revenues divided by regular Total Annual Debt Service. This is slightly lower than City Light's calculation of the metric, which removes City taxes when calculating net revenue. For reference removing city taxes from current the debt service coverage calculation adds approximately 0.25x coverage (1.90x is around1.65x with City taxes included in the DSC calculation).

DEBT STRATEGY PROPOSAL

City Light's debt strategy is intended to provide a flexible framework that serves as a guideline for the overall amount of outstanding debt, as well the amount of the capital program that's funded with debt. The strategy establishes metrics and associated minimum targets to help manage debt.

City Light believes it is on the right path of gradually reducing its reliance on debt. In City Light's Adopted 2022-2028 Strategic Plan the rate path was set using a debt service coverage above the existing 1.80x target (six-year average 1.93x). The higher coverage along with managing the size of the capital program resulted in a planning value of funding 40% of the capital program with operating cash. In addition, the current financial outlook has improved since the Adopted 2023-2028 Strategic Plan was developed and current projected capital funding levels from operations are over 40%.

However, while the recent Strategic Plan has put the Utility on the right path, there is no formal debt management strategy that will help guide future plans, ensuring strong financial stewardship for current and future City Light customers.

City Light's proposed debt strategy is summarized as follows:

(1) Update the Debt service coverage target so that rates are set to achieve *at least* 1.80x in any given year and the Utility maintains a 6-year rolling average value greater than 1.90x.
(2) Update Capital Funding target to have greater than 40% of the 6-year average net capital requirements funded with operating cash
    a. Achieved through a combination of capital program prioritization and cost controls and above target debt service coverage, if needed
(3) Introduce a liquidity target of over 150 Days Cash on Hand for setting rates and sizing bond issues.
(4) Introduce a leverage target of less than 60% debt-to-fixed asset ratio.

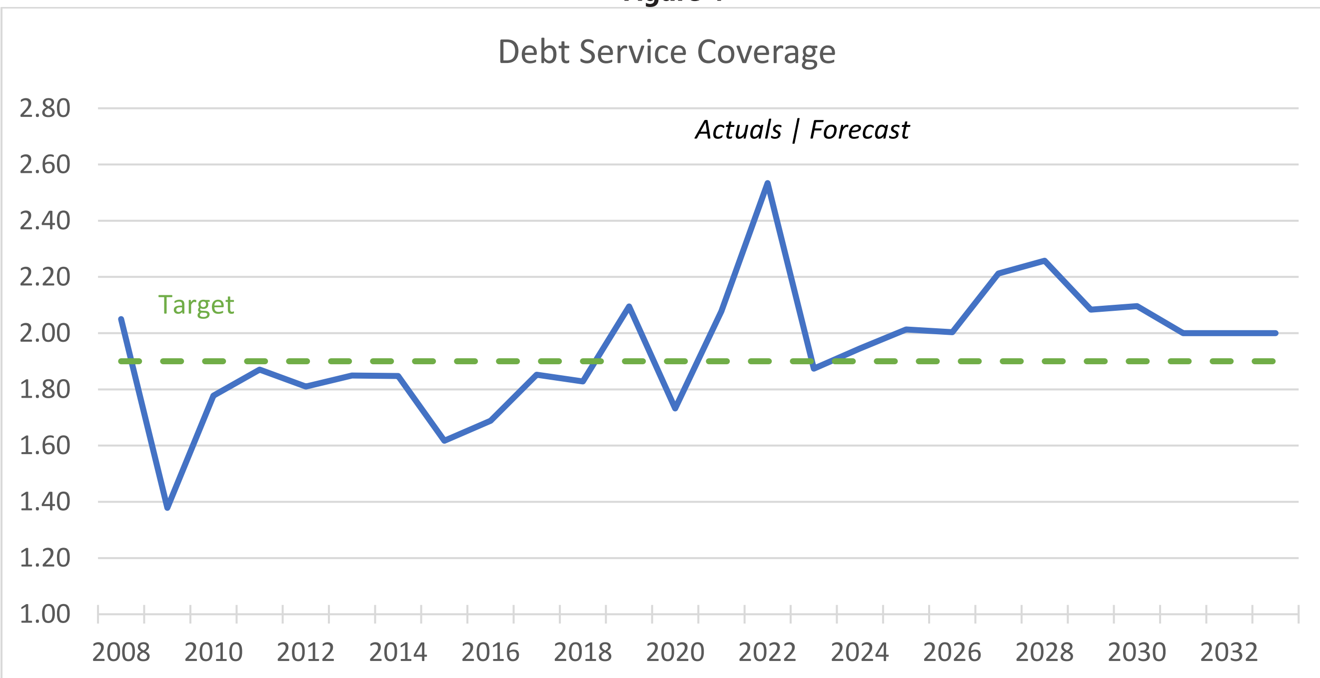
Each component is discussed more below.

Debt Service Coverage. The proposed target of averaging at least 1.90x coverage is a small but material improvement to City Light's current official coverage target of 1.80x each year. In addition, not having a fixed target each year allows for flexibility to smooth out rate impacts over multiple years, including ramping up coverage in anticipation of years of high capital costs. Also, a sustained average coverage of 1.90x is a minimum; actual debt service coverage used to set rates may be higher to meet City Light's other financial policy targets and/or strategic goals.

City Light has relatively low debt service coverage, especially when compared to utilities with similar credit ratings. While City Light's historical coverage is lower than many of its peers, it has many other favorable credit strengths and historically has maintained its high credit rating without ranking in the top half of utilities for debt service coverage (median = 1.95x). In general, higher coverage does mean less debt. However, there is a tradeoff with increasing rates. Every 0.1x increase in coverage means about roughly 2.5% higher customer rates in the near term. The proposed 1.90x or higher coverage on a sustained basis strikes a good balance between financial performance and affordability.

While the policy target is an average of 1.90x per, City Light's specific strategy will be to try to exceed the target and achieve closer to 2.0x coverage on average over the next Strategic Planning period (2025-2030), so long as it can continue to do so with inflation-like rate increases. City Light's annual debt service is currently expected to be relatively flat over the next Strategic Plan period, providing an opportunity for sustained higher coverage along-side modest inflation-like rate increases, all else equal. Figure 4 shows City Light's debt service coverage history and current forecast.

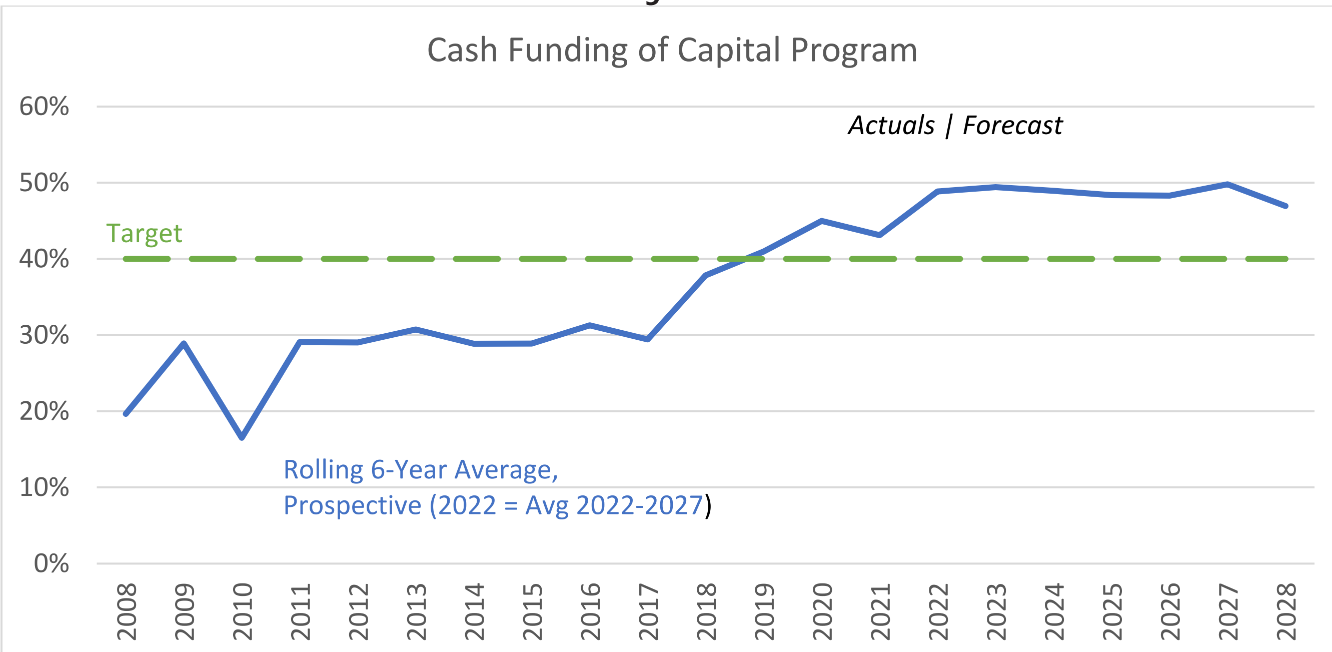
Figure 4



Capital Funding Target. The proposed policy is close to the current policy. The material change is that the funding target is defined as *net* capital requirements, which are after third party contributions. Net capital requirements are the amount of the capital requirements that the Utility is responsible for funding (either through operations or issuing debt). In addition, meeting the 40% funding from operations target can be achieved by a combination of capital program prioritization and cost controls and increasing coverage above the debt service coverage target. The current policy only lists managing the size of the capital program, which may not always be possible given investments required to meet targeted service levels.

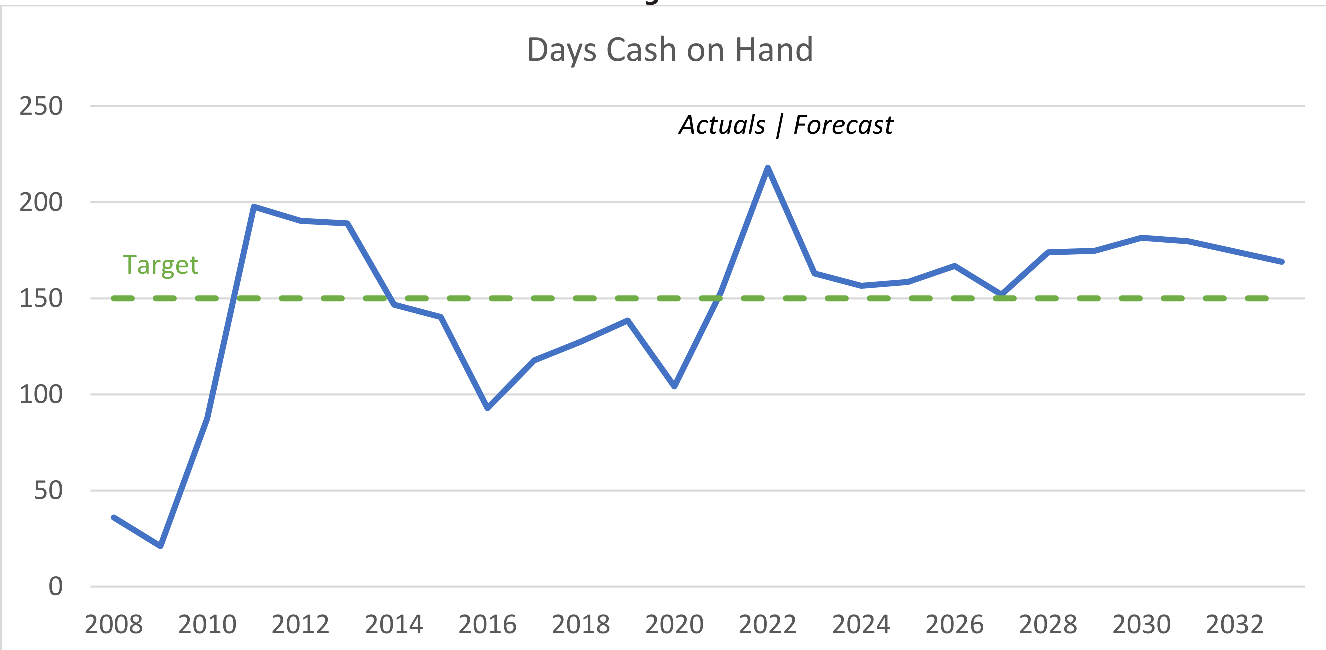
The 40% cash funding policy target is a minimum amount. City Light's strategy will be to achieve greater than 45% in the 2025-2030 Strategic Plan so that the Utility will be able to absorb years of large capital requirements without having to significantly raise rates to meet the 40% minimum funding target. Figure 5 shows City Light's capital funding history and current forecast.

Figure 5



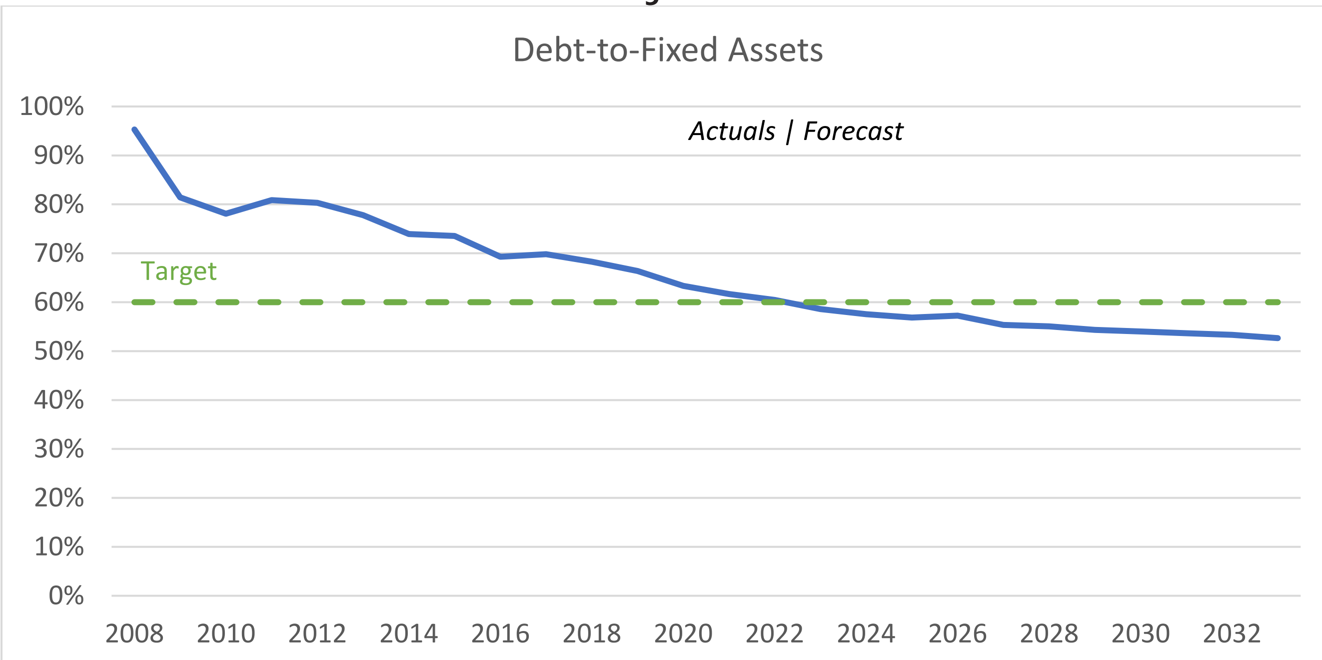
150 Days Cash on Hand. This is a new metric for City Light as the Utility does not currently have an official liquidity target to plan to. Rating agencies typically look at a DCOH metric and note City Light is on the low side compared to similarly-rated utilities. 150 days would be an improvement from historical averages and provide more buffer in years of unexpected cash flow shortages. Since City Light has access to the City's consolidated cash pool in an emergency it doesn't need to carry as much liquidity as other comparably-rated utilities. There is an opportunity cost of carrying higher liquidity as the alternative of reducing debt issuance would result in lower overall costs since long-term borrowing rates are generally higher than short term interest rates. Therefore 150 days will provide sustained improved liquidity but limit the cost of doing so. Figure 6 shows City Light's DCOH history and current forecast.

Figure 6



Debt-to-Fixed Asset Ratio. City Light does not currently have an official leverage metric against which it plans and manages. As mentioned previously, out of all the leverage metrics, the debt-to-fixed assets ratio most closely complements the 40% capital funding target, which is forward-looking. Including a leverage metric as a partner metric to the capital funding target will ensure that the relative amount of debt outstanding is also controlled for. Setting the metric target to less than 60% ensures a manageable debt burden. The strategy will be to gradually bring down the metric below 60% so as to have room to allow it to increase in years of very large capital outlays. City Light has operated with debt-to-fixed capital ratio greater than 60% for many years and still maintained a strong credit rating. However, it will be more prudent to operate with lower debt burden going forward. Figure 7 shows City Light's historical and forecast debt-to-fixed assets ratio

Figure 7



ADDITIONAL FLEXIBILITY

The proposed debt strategy framework allows the Utility to adjust to changing situations. In general, the strategy outlines that City Light should attempt to out-perform each metric target so that it has the required buffer to accommodate years of potential high capital costs without requiring sudden large rate increases to meet its financial targets. However, there could be instances where additional flexibility could be required.

An example of this is if City Light decided to build and own new renewable power generation resources, which would require a significant amount of additional capital. If owning (and debt funding) a generating resource will lead to lower customer rates in the long run the Utility should not avoid ownership because of a large upfront rate increase required to meet financial targets. Therefore, there may be justification to relax the leverage and capital funding targets temporarily, if needed, to allow the Utility to gradually ramp up rates over time.

In most situations the Utility will have sufficient advance notice of new, large capital spending and can gradually increase rates in preparation. However, if there is not enough lead time or if there are other significant rate pressures, the Utility should maintain flexibility to respond to these exceptional circumstances. For example, the Utility might relax its leverage targets for a major one-time expenditure, and would document in writing for City Council what the exceptional circumstance is and how it plans to come back into compliance within a certain number of years and would provide annual reports until compliance is achieved.

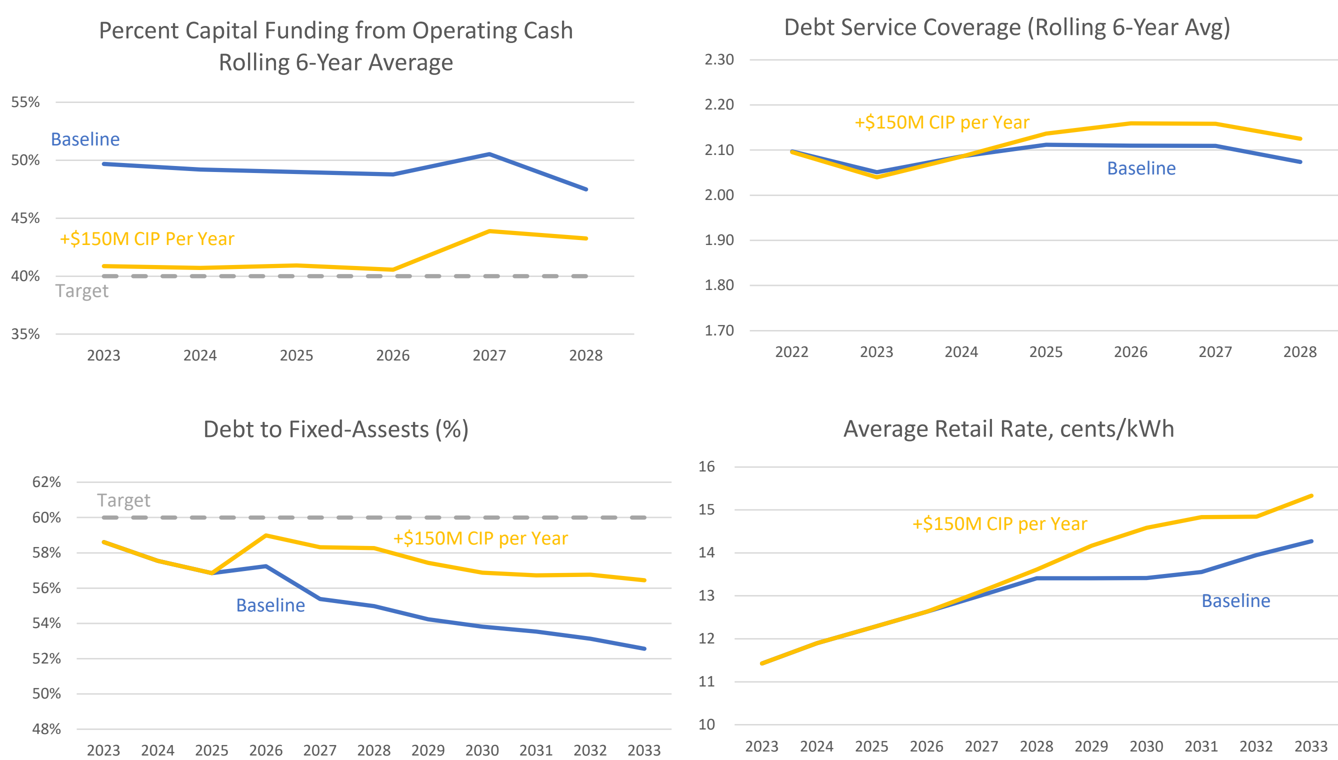
STRESS TEST – SIZE OF THE CAPITAL PROGRAM

A stress test was conducted to see how the size of the capital plan would impact City Light's debt strategy. Under the current financial forecast the Utility is in a strong position to absorb higher capital costs without increasing rates significantly higher than inflation while still meeting the proposed debt targets (>40% capital funding from operations and a debt-fixed-asset ratio <60%).

A number of different capital plan scenarios were run. The most extreme scenario is shared for illustrative purposes. This scenario assumes $150M higher annual capital costs than the baseline each year starting in 2027. For context, $150 million is roughly a third of the size of the baseline (2023-2028 Adopted CIP Plan)

Under the $150M larger capital plan scenario a modest increase in coverage (above baseline) is required to keep the 6-year capital funding target above 40%. The higher coverage along with the higher debt service results in around 8% higher average retail rates over the timeframe. The debt-to-fixed asset ratio was able to remain under the 60% target with no additional intervention above what was required for the 6-year capital funding target. Figure 8 shows the results of the stress test.

Figure 8



DEBT STRATEGY NEXT STEPS

The debt strategy proposes establishing new metrics and targets to provide additional guardrails for prudent debt management. The proposed metrics and targets should become formal financial policies and replace City Light's existing financial policies. The proposed next steps are as follows:

This debt strategy paper will be updated with financial assumptions used in the Retail Rate Path developed for the 2025-2030 Strategic Plan and adjusted based on feedback from the Review Panel and other stakeholders.

1. A summary of the debt strategy will be included as an appendix to the Strategic Plan which will be transmitted to City Council and adopted via a Resolution.
2. A second Resolution will be transmitted along with the Strategic Plan Resolution that adopts the new financial policies and rescinds the old financial policies. The new proposed policies would state that City Light's rates should be established at sufficient levels so that:
   - Debt service coverage is *at least* 1.80x in any given year and the 6-year rolling average is greater than 1.90x.
   - Operating Cash funding is greater than 40% of net capital requirements.
   - Days Cash on Hand is greater than 150 days.
   - Debt-to-fixed asset ratio is less than 60%.
   - Temporary suspension of capital funding and leverage targets is permissible for up to 5 years under exceptional[6] circumstances.

While the new financial policies help provide guardrails, the proposed strategies for the specific values used to set retail rates are dynamic and may evolve between Strategic Plan updates based on a variety of factors. The new financial policies themselves will also need to be periodically evaluated and possibly adjusted over time.

[6] What circumstances may qualify as "exceptional" will be further defined in final debt strategy.

2025 - 2030 Strategic Plan

Review Panel
September 20, 2023

Seattle City Light

WE POWER SEATTLE

- 2025 Strategic Plan Context
- Proposed Schedule

Seattle City Light

Strategic Plan Cycles

Past Plan Cycles

- **2012** — 2013-2018 Strategic Plan
- **2014** — 2015-2020 Strategic Plan *Update*
- **2016** — 2017-2022 Strategic Plan *Update*
- **2018** — 2019-2024 Strategic Plan
- **2021** — 2022–2026* Strategic Plan
- **2022** — 2023–2028 Strategic Plan *Update*

Proposed

- **2024** — 2025 - 2030 Strategic Plan ***Update***
- **2026** — 2027 - 2032 Strategic Plan ***(New GM/CEO)***

** Due to pandemic 2022-2026 SP was a five-year plan. GM Debra Smith's first plan.*

Business Strategic Priorities - Remain the Same

- Improve the Customer Experience
- Create our Energy Future
- Develop Workforce and Organizational Agility
- Ensure Financial Stewardship and Affordability
- We Power

Current Structure

Priorities

- An area of focus
- *Example: Develop Workforce and Organizational Agility*

PIAs

- Projects, Initiatives, & Activities
- **HOW** we plan to achieve our priority
- *Example: Operationalize Organizational Change Management*

New Structure

Priorities

- Our area of focus
- *Example: Develop Workforce and Organizational Agility*

OUTCOMES

- **WHY** we do our work
- Our desired impact
- Defines what changes if we are successful.

PIAs

- Projects, Initiatives, & Activities
- **HOW** we plan to achieve our priority
- *Example: Operationalize Organizational Change Management*

Examples of New Structure

Mission: deliver customers affordable, reliable and environmentally responsible electricity services

The Model:

- **Priority**
  - **Outcome:** Why we do our work
    - **PIA:** How we plan to get there

Past Success Story:

- **Financial Health & Affordability**
  - **Reduce Growing Accounts Receivables**
    - Road to Recovery

Future Possibility:

- **Create Our Energy Future**
  - **Access to Car Charging**
    - Public Chargers
    - Fast Track Private Installs
  - **Shave Peak**
    - ToU Rates
    - Community Solar
    - Other Power Reduction

Projects, Initiatives and Activities (PIAs) - Adjusted

- Deleted if program is now "business as usual" / Operationalized

+ Added if gap is identified or if new program is proposed

▲ Changed to focus efforts on desired outcomes or to respond to adjusted priorities, workload, and/or staffing constraints

External Scan: Activity Overview

- **Objective**: Discuss the possible environment City Light may be operating in over the next six years.

What internal dynamics should we consider?

City Light

How will the external world impact us?

- **Format**: Small group joint session with the Executive Team and the Review Panel (All Virtual)
- **Date**: October 18, 2023

THANK YOU

Seattle City Light

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seattle.gov/city-light

YouTube

Mission, Vision & Values

Mission

Seattle City Light provides our customers with affordable, reliable and environmentally responsible energy services.

Vision

Create a shared energy future by partnering with our customers to meet their energy needs in whatever way they choose.

Values

- **Customers First**
- **Environmental Stewardship**
- **Equitable Community Connections**
- **Operational and Financial Excellence**
- **Safe and Engaged Employees**

September 2023 – June 2024 Review Panel Workplan

Quarter	Month	Topics
Q3 2023	July	----NO MEETING----
	August	----NO MEETING----
	September 20th	• Net Wholesale Revenue and RSA update • Strategic Plan update ○ RP roles vis a vis the 2025-2030 SP ○ Draft 2025-2030 Strategic Plan schedule ○ Confirm 2025-2030 Strategic Plan priorities ○ Q2 2023 Strategic Plan Report • Debt Strategy white paper (understand/inform) • July Executive Dashboard (packet only/informational)
Q4 2023	October 18th	• 2025 – 2030 Strategic Plan Exercise: Landscape analysis (Threats/Opportunities exercise) • August Executive Dashboard (packet only)
	November 15th	• Q3 2023 Strategic Plan Report (packet only) • 2025 – 2030 Strategic Plan Outreach – Initial planning • Introduce outcomes (conceptually)
	December 20th	• TBD
Q1 2024	January	• Draft Revenue Requirement • Review/test outcomes developed by SCL Executive Team • TOD Rate implementation?
	February	• Strategic Plan Update outline • Final Revenue Requirement and rate path
	March	• Strategic Plan draft • Intro to PIAs (changes, deleted, new) • Intro RP Letter ○ Key Themes

Q2 2024	April	• Outreach results • Strategic Plan Update review • Review Panel SP letter • Rate design legislation review (cost allocation)
	May	• Final look at Strategic Plan update • Finalize RP letter
	June	• TBD

Seattle City Light

Q2 2023 Strategic Plan Status Report

Project Lead: Leigh Barreca
Report Preparation: Brian Taubeneck
August 25, 2023

Executive Summary

This document is intended for use by Seattle City Light staff and its stakeholders, including the City Light Review Panel. It provides status updates on the quarterly completion of milestones for each workstream associated with the five strategic priorities detailed in City Light's 2023 – 2028 Strategic Plan.

Each section will begin with a snapshot of whether each workstream's quarterly milestone(s) has/have been completed, delayed/in progress, or delayed/cancelled. The next section will provide greater detail of each workstream's milestone status through the comments provided by the workstream leads. The comments will show only those milestones that are delayed or are facing issues with completion. If a workstream has completed all their milestones, that will be noted at the beginning of the section.

For Quarter 2, there are 21 PIAs with milestones that are either delayed or in progress and 16 PIAs with milestones that are fully completed. For the PIAs with delayed milestones, all delays have been sufficiently mitigated and are on track to complete in Quarter 3.

Table of Contents

1. Key Definitions

1.1. Key Definitions

Strategic Priority – Broad, multi-year areas of focus that will help City Light achieve its vision. These five strategic priorities, also known as business strategies, are detailed in City Light's Strategic Plan.

PIA – Acronym for "Projects, Initiatives, and Activities." PIAs are key program areas that have been specifically called out in City Light's Strategic Plan.

Workstream – Major initiatives and activities completed by various workgroups at City Light in support of the PIAs. Each contributes to the overall success of City Light achieving the goals of the strategic priorities.

Milestone Stage – Workstream Leads choose from 3 statuses when reporting on the success of meeting quarterly milestones:

- Complete – Indicates that milestones for the quarter were completed as scheduled.
- Delayed / In Progress– Indicates that completion of a scheduled milestone has been delayed. This includes milestones that are in progress and will be completed after the close of the reporting quarter.
- Delayed / Cancelled or Reprioritized – Indicates that milestones have been delayed significantly as the result of cancellation or reprioritization.

Milestone Comments – Space provided for workstream leads to give greater detail for their choice of Milestone Status. Examples of comments include deliverables completed and mitigation for delays.

2. Strategic Priority – Improve the Customer Experience

2.1. Q2 Milestone Status

There are six workstreams within the Improve the Customer Experience strategic priority. Four completed all scheduled milestones and two had delayed or in progress milestones for Q2.

PIA	Workstream	Q2 Milestone Stage
Expand Customer Service Options	Demand Response Pilot	Delayed / In Progress
	Implement Time of Day Rates	Delayed / In Progress
	Develop the Renewable Plus Program	Complete
Integrate Voice of the Customer into Organizational Culture	Apply customer insights to utility projects and programs	Complete
Strengthen and Fix Core Customer Services	Service to Bill	Complete
	UAP Evaluation	Complete

2.2. Selected Q2 Milestone Comments

Workstream leads provided several comments related to their milestone status. While many deliverables were completed some have been scheduled for early Q3. A selection of comments is highlighted below:

Workstream	Q2 Milestones	S	Q2 Milestone Comments
Demand Response Pilot	Begin City Budget Office (CBO) engagement and community outreach. 2,000 participants enrolled; incentives paid.		Due to late approvals on cybersecurity/privacy reviews and OEM requirements, SCL missed their deadline for the marketing push. Marketing push is delayed until the last week of July. As of 7/10/23, 473 customers have enrolled.
Implement Time of Day (TOD) Rates	TOD RFP live; vendor selected.		RFP is scheduled to be released in July. Team is navigating FAS procurement process.

3. Strategic Priority – Create our Energy Future

3.1. Q2 Milestone Status

There are seven workstreams associated with the Create our Energy Future strategic priority. All 7 had milestones that were delayed in Q2.

PIA	Workstream	Q2 Milestone Stage
Demonstrate Leadership in Western Market Development	Achieve reliability & market compliance - Western Market Development	Delayed / In Progress
Fund and Implement Utility Next Portfolio	Utility Next – complete applications and secure key grant opportunities	Delayed / In Progress
Implement Electrification Plans	Launch PowerUp NW and Finalize Building Electrification Strategy	Delayed / In Progress
	Implement key Transportation Electrification initiatives	Delayed / In Progress
Implement Grid Modernization Program	Implement grid modernization projects	Delayed / In Progress
Integrate Distribution System and Resource Planning	Design and implement distributed energy resources strategy	Delayed / In Progress
	Develop a plan and process for creating an Integrated System and Resource Plan (ISRP) encompassing Generation, Transmission & Distribution	Delayed / In Progress

3.2. Selected Q2 Milestone Comments

Workstream leads provided several comments related to their milestone status. While many deliverables were completed some have been scheduled for early Q3. A selection of comments is highlighted below:

Workstream	Q2 Milestones	S	Q2 Milestone Comments
Achieve reliability & market compliance - Western Market Development	Market development project plans for EDAM, Markets+, and WMEG.		WMEG has largely wrapped up with the completion of E3's cost-benefit studies. Staff continue to work on a framework for

			internal deliberation and ultimate decision on day-ahead market participation.
Utility Next – complete applications and secure key grant opportunities	Complete Contracting and decision-making for all CEF Grant Awards by Q2 2023 and finalize charter.		All CEF Grants have been contracted. Utility Next charter will be finalized by the end of 2023.
Launch PowerUp NW and Finalize Building Electrification Strategy	Finalize PowerUp NW Branding. Launch PSE/SCL Heat Pump Pilot. Map workforce development providers and resources; identify gaps.		PowerUp NW Branding is finalized, but learned of an existing corporation that is using identical branding and has registered a website with same name. Evaluating how to address this and path forward. PSE/SCL heat pump pilot launch delayed until August. The External Workforce Development scope has taken a different path - coordinating with OED and OSE to prepare a response to Mayoral Order on workforce development. That process is underway and on track.
Implement key Transportation Electrification initiatives	Programs: Launch SCL-owned Public Charging 2.0. Projects: Designing and permitting Shoreline public charging station.		Programs: Delayed due to several staffing transitions and shifting Program Managers. Shifting this milestone to Q4 2023. Projects: We are finalizing designs and will start construction by the end of August.
Implement grid modernization projects	Commission University substation and Children's Hospital and Medical Center (CHMC) DA FLISR schemes – switches are integrated into the EMS and operable by SOC and autonomously.		Some switches were damaged and required replacement, delaying full deployment which is now expected in Q3 2023 of University Sub Distribution Automation Fault Location Isolation and Service Restoration (DA FLISR).

	Working with UTD, complete back-end systems for distribution line sensors. Success means Power System Automation has identified the SCL owned hardware for the backend system and completed the workshop series with L+G to establish, install, and integrate the L+G backend software (C.IQ). Begin installation of distribution line sensors. Issue Work Orders to SCL Crews for scheduling for DA Remote Switching devices.		Children's Hospital and Medical Center (CHMC) moved to new controllers. Distribution line sensors (DLS) – L+G provided workshop/ training partially occurred. Awaiting SCL backend system implementation. 90% Engineering drawings received and reviewed. In comment resolution phase. Delays due to high amount of "make ready work" that is leading to redesign.
Design and implement distributed energy resources strategy	Deliver DER strategy. Make recommendations for improved business processes. Draft an update to the DER interconnections requirements. Do a data gap analysis and make recommendations to improve data collection.		Delayed by one month to allow for completion of deliverables.
Develop a plan and process for creating an Integrated System and Resource Plan (ISRP) encompassing Generation, Transmission & Distribution	ISRP Team formation.		Delayed allowing time for key team member hiring. Expecting to be more active in 2nd half of 2023.

4. Strategic Priority – Develop Workforce and Organizational Agility

4.1. Q2 Milestone Status

There are six workstreams within the Develop Workforce and Organizational Agility strategic priority. Two workstreams have fully completed milestones and four have delayed or in progress milestones.

PIA	Workstream	Q2 Milestone Stage
Organizational Change Management Program	Operationalize Enterprise Change Management and Business Process Management Programs	Delayed / In Progress
Build an Agile Workforce	Develop an Equitable Employee Lifecycle	Delayed / In Progress
	P&C Assessment and Strategic Planning	Complete
	Foster a Safe and Secure Work Environment	Delayed / In Progress
	Redesign racial equity analysis process and tool	Complete
Continued Implementation of the Utility Technology Roadmap	Implement the Utility Technology Roadmap	Delayed / In Progress

4.2. Selected Q2 Milestone Comments

Workstream leads provided several comments related to their milestone status. A selection of comments is highlighted below:

Workstream	Q2 Milestones	S	Q2 Milestone Comments
Implement the Utility Technology Roadmap	ARC FM Upgrade Project Travel and Expense Project Execution		ArcFM Upgrade extended to September go-live. Travel and Expense project execution awaiting Technology Leadership Committee approval.
Develop an Equitable Employee Lifecycle	Move Equitable Employee Lifecycle Framework (P1) into Design and Planning (Phase 2). Design process, tools and templates for utility-wide use Set priorities for implementation with teams and P&C leadership. Re-establish regional consortium network. Implement Kx (knowledge sharing) practices. Roadshow for Strategy/Stakeholder Engagement. Conduct collaborative "labs" with stakeholders to design/redesign programs and processes. Support initiation of Workforce Equity Study (with RSJI). Train targeted groups as ambassadors for change (hiring managers, for example). Understand impacts, constraints, and implications to planning related to equitable hiring practices.		Utilizing Business Process Management best practices to inventory and organize all processes, tools for knowledge exchange, assets, and items to streamline services related to the Employee Lifecycle. Maximizing the use of efficiency tools including NeoGov, SharePoint and Asana to streamline projects, understand resource utilization and identify gaps in Employee Lifecycle services. Working with key stakeholders to redesign employee onboarding and new hire training. Designing a systems approach for career mapping and skill development across the utility. Conducting a solutions analysis for workforce equity, establishing data-driven recommendations and reports related to hiring practices and workforce planning across key business units, and creating a baseline of key management knowledge for all People Leaders through OpEx targeted training.

Foster a Safe and Secure Work Environment	Coach Safety specialists in incident review and coding within Cority; work with Analytics to customize Cority to provide supportive data. Draft SHaW procedures & implementation plans. Begin vetting training contractors and supporting development of materials for in-person and online safety training. Host training and post a guide on how to hotel, to include leveraging the software solution. Move employees back onto SMT32 & SMT33 and have regular touchpoints to gather feedback on how the space is working for them. Rollout Workplace Expectations training to the utility with a proposed 35% Completion Rate by the end of Q2.		Safety has been doing informal coaching with safety specialists and working on a guide internal to SHaW to help specialists understand what their duties are. The team has not yet reached a point where they are prepared to customize Cority. Progress is being made on drafting procedures and implementation plans will be developed as they move forward. The Confined and Enclosed Space Entry and Rescue procedure is drafted and is currently going through the review process. Will determine who needs this training. There was a soft rollout for workplace expectations training. 144 employees were assigned with a 93% completion rate. Action team planning is underway with teams developed in one business unit and two other business units are forming. SMT32 & SMT33 employees moved starting in July (Q3). Trainings held and guide posted for how to hotel.
Organizational Change Management Program	Continue to develop and offer BPM trainings. Advance process performance measurement best practices in collaboration with the Strategic Planning and Performance Team.		Class 1 for BPM trainings ready to launch, coordinating with P&C on comms. Class 2 in development with targeted launch later this year. Collaboration with the SPP team continues, aiming for a best practices plan for identifying type of strategic performance measurements.

5. Strategic Priority – Ensure Financial Health and Affordability

5.1. Q2 Milestone Stage

There are five workstreams for the Ensure Financial Health and Affordability strategic priority. Two have fully completed milestones for Q2 and three have workstreams with delayed or in progress milestones.

PIA	Workstream	Q2Milestone Stage
Control Rate Increases	Increase Financial Acumen	Delayed / In Progress
	Refine Financial Policies and Debt Strategy	Complete
Price Services for the Future	Influence Bonneville Power Administration Provider of Choice Contract Policy	Complete
	Underground Rate Policy	Delayed / In Progress
Road to Recovery	Road to Recovery continuation efforts and improvements	Delayed / In Progress

5.2. Selected Q2 Milestone Comments

Workstream leads provided several comments related to their milestone status. While many deliverables were completed some have been scheduled for early Q3. A selection of comments is highlighted below:

Workstream	Q2 Milestones	S	Q2Milestone Comments
Increase Financial Acumen	Project Management Dashboard Development		Other priorities for both the BI Team and Budget Office pushed the timeline by one quarter. Development work kicked off in early July (Q3).
Underground Rate Policy	GIS underground service analysis update - Study will help estimate cost difference of replacing UG infrastructure for single family homes vs. multi-family/mixed uses buildings.		GIS study delayed to Q3.

Road to Recovery continuation efforts and improvements	Communicate the end of the late fee waiver to internal and external customers. Notify customers who successfully complete all payments associated with their long-term Recovery Payment Plan (RPA). Electrical Helpers to start field disconnections.		City Light, in coordination with SPU, has decided to extend the late fee waiver through February 2024 instead of December 2023. Slowly resuming our field disconnections and reconnection efforts. Work is currently underway to resume some amount of manual/field disconnections by the second week of August.

6. Strategic Priority – We Power

6.1. Q2 Milestone Status

There are four workstreams within the We Power strategic priority. One with fully completed milestones, and three with delayed or in progress milestones in Q2. Milestone detail can be found on the accompanying Excel spreadsheet.

PIA	Workstream	Q1 Milestone Stage
We Power	Develop Division Performance Dashboards	Delayed / In Progress
Skagit Relicensing	All efforts related to relicensing requirements	Complete
Prioritize investment in core infrastructure to	Improve reliability and outage response	Delayed / In Progress
	Infrastructure improvement prioritization and reporting	Delayed / In Progress

6.2. Selected Q2 Milestone Comments

Workstream Leads provided several comments related to their milestone status. While many deliverables were completed some have been scheduled for early Q3. A selection of comments is highlighted below:

Workstream	Q2 Milestones	S	Q2 Milestone Comments
Improve reliability and outage response	Boardwalk Meeting/ Abnormal Condition Log. Line Operations Scheduling Tool		Positive progress towards repairing abnormal conditions and conducting effective Boardwalk meetings.

			Line scheduling tool is still in process.
Infrastructure improvement prioritization and reporting	On-board Manager 3 (Underground)		The hiring process is nearing completion. Update milestone is early Q3 2023.
Develop Division Performance Dashboards	Build one dashboard. Catalog cross-division reports for one division.		Finishing CES dashboard by end of July (Q3). Making progress on re-organizing AP reports.