CITY LIGHT REVIEW PANEL MEETING

Wednesday, March 20, 2024
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 (Leo Lam)	
b. Review of agenda (Julie Ryan)	
c. **Action**: Review and approval of meeting minutes of February 21, 2024	
d. Communications to Panel (Leigh Barreca)	
4. Remarks from Council Member Woo (*15 min.*)	Tanya Woo
5. General Manager Update (*25 min.*)	Dawn Lindell
a. In person meeting in April?	
6. Strategic Plan Update (*60 min.*)	Leigh
a. Revenue Requirement & Rate Path	Chris Ruffini
b. Discussion Strategic Plan Draft	Vanessa Lund
c. Outreach Update	Jenny Levesque
d. Review Panel letter	Julie
7. Adjourn	

Next Meeting: April 17, 2024

City Light Review Panel Meeting
Meeting Minutes

Date of Meeting: February 21, 2024 | 9:00 – 11:00 AM |
Meeting held in SMT 3204 and via Microsoft Teams "Draft"

MEETING ATTENDANCE					
Panel Members:					
Mikel Hansen	√	Leo Lam	√	Oksana Savolyuk	√
Joel Paisner	√	John Putz	√	Thien-Di Do	√
Kerry Meade		Tim Skeel	√	Amy Altchuler	√
Dawn Lindell *(New GM, pending appointment)*	√	Jen Chan	√	Julie Ryan (Consultant /RP Facilitator)	√
Mike Haynes	√	Andrew Strong		Craig Smith	√
Kirsty Grainger	√	DaVonna Johnson		Maura Brueger	√
Julie Moore	√	Chris Ruffini	√	Leigh Barreca	√
Greg Shiring	√	Carsten Croff	√	Angela Bertrand	√
Eric McConaghy		Caia Caldwell	√	Brian Taubeneck	√
Jeff Wolf	√	Karin Estby	√	Bridget Molina	√
Pat Leyritz		Siobhan Doherty	√		

Welcome and Introductions. The meeting was called to order at 9:01 a.m.

Public Comment. There was no public comment.

Standing Items:

Chair's Report. There was no Chair's report.

Review Agenda. Julie Ryan reviewed the agenda.

Approval of Jan. 24, 2024, Meeting Minutes. Minutes were approved as presented.

Communications to Panel. There were no communications to the Panel.

General Manager's Introduction.

Dawn Lindell, City Light's new general manager, joined the organization two days ago. Dawn introduced herself, provided details on her background, and highlighted some of her initial priorities for leading Seattle City Light.

Creating our Energy Future

Currently we are experiencing a new era of challenges and opportunities in this industry, requiring us to do different things, differently. The changing weather patterns present a great unknown and require us to partner broadly to bring the best minds across industries together to find innovative solutions. We can expect increased price pressure around renewable energy and there are resource adequacy issues to address. This requires new thinking, including outside the industry in environmentally focused groups. I look forward to starting discussions here on new technologies that could provide grid support and resource adequacy.

One of those to consider is small modular reactors, which can be built modularly and on a smaller scale (e.g. 450 MW) compared to the old very large nuclear plants. They are usually configured in groups of 6 or more units to get economies of scale. They are air-cooled as opposed to water cooled when they need to be shut down. The new technology is much safer than older nuclear plants, taking 10% of the safety zone of what the older, larger plants required. They are a carbon-free baseload resource that can be flexibly dispatched. And the spent fuel is kept on site as spent fuel becomes future fuel. The Department. of Energy is looking to fund small modulars reactors. There are opportunities to use this technology in the Pacific Northwest as well.

Batteries are critical to manage peak load, especially with more intermittent renewable energy added to the grid. Another resource to explore is iron flow batteries. Batteries are valuable for meeting peak load. Iron flow batteries have a longer life, provide a longer discharge cycle than lithium-ion batteries (6 to 10 hours as opposed to 4 hours). They are not expected to fatigue like lithium ion, and there is less toxicity at the end of life.

Great outcomes are exactly what we need to reverse the climate damage and change the trends – open minded exploration of carbon capture, new generation technologies such as small modular reactors, batteries to help offset peak usage, TOU rates to help reduce peak demand, and open communication for curtailment when needed. I am also committed to system reliability. At City Light, we'll be making investments in infrastructure to continue providing the reliability that our customers need and expect.

Energy Burden

I am excited to see SCL focus also on reducing the energy burden on our disadvantaged communities. We will look for opportunities to partner with organizations to lower the energy burden for those customers.

Workforce of the Future

Creating the energy future requires creating the workforce of the future. We need to be thinking ahead about the types of skillsets we will need now and, in the future, and build to those now. Artificial intelligence and data analytics are critical to our future. Predictive maintenance can greatly improve reliability while reducing costs. We need the expertise and the tools to identify trends and react to them. Therefore, we need to identify the skillsets that we need now to meet our needs in 10 years – not just with analytics and technology, but also in skilled craft employees.

We need to be hiring and retaining our top talent. To this end, we need to pay at mid-market, and we are not. We need to be partnering with local schools and universities so that we can develop the skillsets we need and show how we are an interesting and cool place to work. We also need to train and re-train our workforce. Investment in people demonstrates how much we value our people, engages our team members in helping to address our challenges, and strengthens our connections to the community.

Diversity matters because groups made up of diverse team members have better results. Studies have found that companies with women and minorities on their boards are 20% more effective and racially diverse boards are 36% more effective. Diverse teams deliver 60% better results across the board. Diverse juries spend more time on deliberations, look back at facts, and deliver more correct verdicts. Peter Drucker said culture eats strategy for breakfast so we want to create a strong, healthy culture where people can disagree agreeably will help to create belonging and engagement. Investment in both staff and resources is critical. So is effective management designed for continuous improvement, accountable to measurable results including cost avoidance and cost reduction which sends a message that we value that.

Electrification
The largest carbon emissions come from the transportation and building sectors. Building electrification will be increasing City Light's customer load. There are opportunities to add EV charging infrastructure in Seattle. City Light can also help customers learn more about EVs, such as used and new EVs, driving range, battery life, and total cost of ownership. I look forward to learning more about what SCL provides customers.

Q: Regarding small modular reactors, what will it take to get this off the ground? Is there space for a public/private partnership?
A: Yes, there is an opportunity. Right now, many utilities are nervous about heading into the nuclear space, but not having baseload resources is problematics given additions in intermittent renewable energy. The industry needs baseload resources for resource adequacy, to ensure no system outages. These can be scaled from 6-12 units for cost efficiency. When operational, the operator can dispatch one or any combination of units needed to meet demand on the grid.

Q: Do you have thoughts on City Light's portfolio being roughly 85% hydro, between owned hydro generation and the BPA contract? What are your thoughts on our current resource opportunities and challenges?
A: WAPA is 100% hydro – I'm a huge fan! That was part of the draw to bring me here. While we are not in full drought yet, we have seen dryer weather and lower production in recent years. We also have a significantly decreased salmon population, and we want to turn that around. This conversation is ongoing with the Skagit Relicensing effort. We need to invest in fish passage and other mitigation efforts. . With respect to power supply costs, City Light is focusing on forecasting weather patterns and planning for extreme circumstances. Weather events are longer, stronger in intensity, and larger than in the past.

Q: One of the Review Panel's responsibilities is to approve the strategic plan. You've introduced a few new focus areas that have not been discussed for this upcoming strategic plan.
A: SMRs and other new technologies are not something we would be building in the next 5 years, but we need to start the conversation now. Energy Northwest is working on an SMR project in Richland WA and UAMPs in Grant County. We have to start the conversation in the region that we can learn from and address the fears and concerns that our customers and stakeholders have.

Strategic Plan Update. Leigh Barreca introduced the topics related to the 2025 – 2030 Strategic Plan Update. All materials are included in the Review Panel packet.

a. Draft Revenue Requirement (Kirsty Grainger presented, in the packet.).

Q: The change in forecast is pretty dramatic. How confident are we in its accuracy?
A: The Revenue Requirement is the total cost to serve customer demand. In this forecast, sales volumes are forecast to increase, but costs are increasing faster and at a significant rate. Electrification adoption is an important forecast driver.

The hardest thing about forecasting is human decisions and actions. Forecasting snowpack is much easier than forecasting policy changes. There is a lot of uncertainty because it is based on what we think people will do. Knowing this, we partnered with EPRI who develops scenarios about adoption levels and government policy, in order to estimate load growth. We are confident that we must add capacity as load grows.

Q: What is the Skagit cost going towards?
A: A portion of the costs are for ongoing investments that we would do regardless of current relicensing negotiations, such as generator rewinds and turbine replacements. The additional costs are for species protection, mitigation, and enhancement work will need to be done as part of the relicensing agreement. This includes fish passage, estuary enhancement and mitigation, and recreation. These will be big investments over the 50-year license.

Q: What are the assumptions that are driving the changes in Net Wholesale Revenue (NWR)?
A: We are planning to bring in new resources through Purchase Power Agreements (PPAs) to meet the future load increase. The NWR is increasing because there are periods when we have surplus to sell. As we acquire more resources, that means more surplus power sales during low demand periods. The NWR is the revenue we receive when we sell the excess power into the wholesale power market.

Q: We knew there would be increasing costs for the Skagit Relicense, but what did we miss in estimating contingencies? What lessons were learned?
A: The timing and scale of the investments were difficult to forecast. We have been at the table with the settling parties for close to four years. We didn't know what their requests would be at the time of the last strategic plan revenue requirements forecast. Additionally, the timing of implementing the components of the agreement is important with investments this large. There are 30+ parties that are part of the negotiation—each with their own desires and interests.

Q: Can we go through the capital budget in more detail? [posed by one panel member] **Could we see the information in terms of ongoing investment as opposed to new investment?** [posed by another panel member]
A: We will return next month with more information. As we are a public entity, anything we add to the budget is in the public domain. We are currently at the negotiation table and the conversations are "privileged" (i.e., confidential) so we cannot disclose some details.

Q: For the last 6 or so years, our load forecast has gone down and that was why rates had to go up as fixed costs were spread out over lower volume sold. Now that your load forecast is increasing, why are costs per customer still going up?
A: Correct, if costs did not change, we would expect the rate per customer to decrease as we sell more energy. However, the prices for future power supply are much higher than in the past. The forward market price is $80-90/MWh, compared to a historical price closer to $30/MWh. In the real-time market, the price volatility is even higher. In a low demand period, prices may be at $30. But during high demand hours, prices rise. For example, over the MLK weekend, there were hourly prices at $1000/MWh, when demand was high.

Unfortunately, when we have surplus to sell, the wholesale market price tends to be lower. And, when we need to buy in the market, so do other utilities, which drives up the price. This makes supply price forecasting extremely difficult,

Q: Why have capital costs increased 10% in one year?
A: The capital forecast is larger than in the prior six years. We are still working on the forecast and there are some

placeholder assumptions. We will provide details as we have them.

Q: When developing the forecast, how much is your own power vs. acquiring from others?
A: Our 2022 IRP included a market reliance assumption of 200MW. This has been a common assumption for us and more broadly in the industry. But we will be reevaluating that planning assumption in our next IRP.

Q: Do we really expect transmission expenses to be this low in the forecast? The past 8 years of history indicate were higher, and wouldn't we expect the same or higher costs going forward?
A: We do not anticipate any new transmission builds similar to those in 2018 and 2019.The forecast estimate reflects maintaining our transmission. Also, this category does not include purchased power transmission. That said, you do bring up a good point and we will take another look at those numbers.

Q: What is the "optimal" debt service coverage ratio (DSC), to balance affordability in the short-term vs future rates. Why is the DSC higher in the later years of the forecast (e.g., 2.4 in 2030)?
A: Debt service coverage is our primary performance indicator—we are balancing how much we pay for investment up front vs how much of the investment cost is spread over future years. This is a strategic issue for us – balancing a stable rate path with affordability in the near term and we target a 1.4 ratio. We also try to smooth rates over the time horizon. Keeping the rate increase at 3.6% in the last three years of the forecast resulted in these DSC ratios.

b. Strategic Outcomes (Angela Bertrand presented)

Q: Can you explain what the second and third items are in the financial stewardship section?
A: The second item, "Align resourcing strategy with customer priorities", refers to aligning our spending to services and products that our customers want. The third item, "Limit burden on residential customers", refers to energy burden, to seek ways that we can decrease the cost of power to our low-income customers through energy assistance programs.

Q: Is there more detail to how you will serve your low-income customers? Are you contemplating changing your rate structure and/or making your assistance programs more readily available?
A: Yes, we will present that to you in March. There is an ongoing City-wide program that is looking at utility discount programs and developing ways to make they more accessible and to develop strategies to increase enrollment.

Q: Do we exclude Section 8 residents (who also receive a utility allowance) from enrollment in the UDP? I assume NO but just wanted to confirm.

A: (The answer was provided after the meeting ended) Good question! We do not exclude them. In fact, Seattle Housing Authority includes Housing Choice Voucher tenants on the annual list we receive from them to use for auto-enrolling customers into the Utility Discount Program, UDP.

Adjourn. The meeting was adjourned at 11:01 a.m.

Next meeting: March 2, 2024, 9:00 – 11:00 a.m.

2025-2026 Preliminary Rate Path 2.0

Acknowledging Our New Reality

Seattle City Light

WE POWER SEATTLE

Review Panel Questions

February 2024 Meeting

Seattle City Light

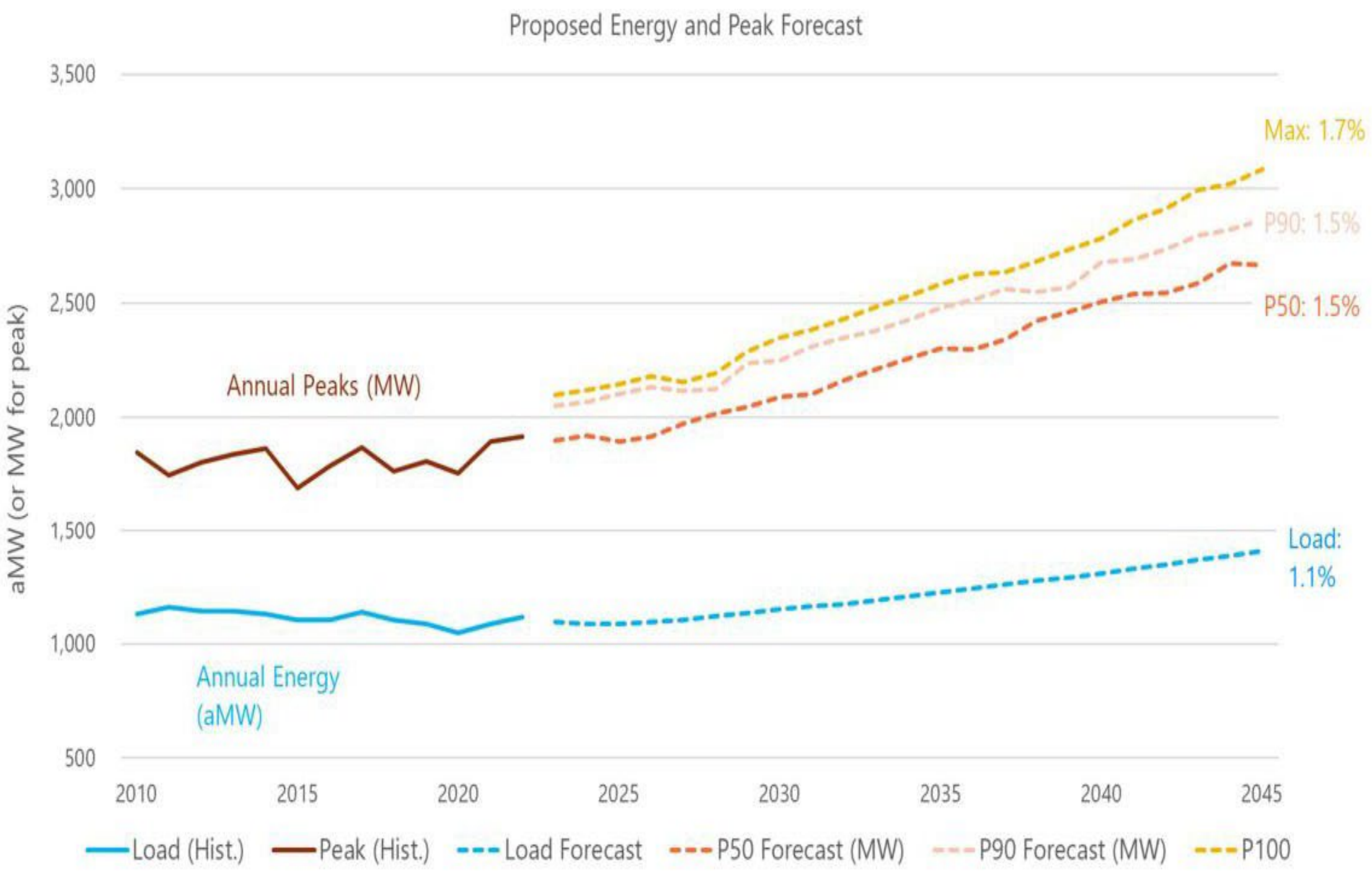
Investments in New vs Existing Assets?

- CIP is mostly maintenance and regulatory obligations.
- Service connections also drive our CIP.
- New assets/capabilities are a small part of our CIP.
- GRIP grant application underway; new capability to meet and manage an evolving network.

2024 Adopted CIP		$M	%
Existing Infrastructure	Maintenance & Repair	$ 242	54%
	Regulatory Obligations	$ 69	15%
	Existing Infrastructure Subtotal	**$ 310**	**70%**
Duty to Serve	Service Connections	$ 44	10%
	Service Connections - Capacity	$ 34	8%
	Joint Use	$ 17	4%
	Transportation Related	$ 16	4%
	Duty to Serve Subtotal	**$ 112**	**25%**
New Assets	Capability Increase	$ 17	4%
	Electrification	$ 7	2%
	New Assets Subtotal	**$ 24**	**5%**
Grand Total		**$ 446**	**100%**

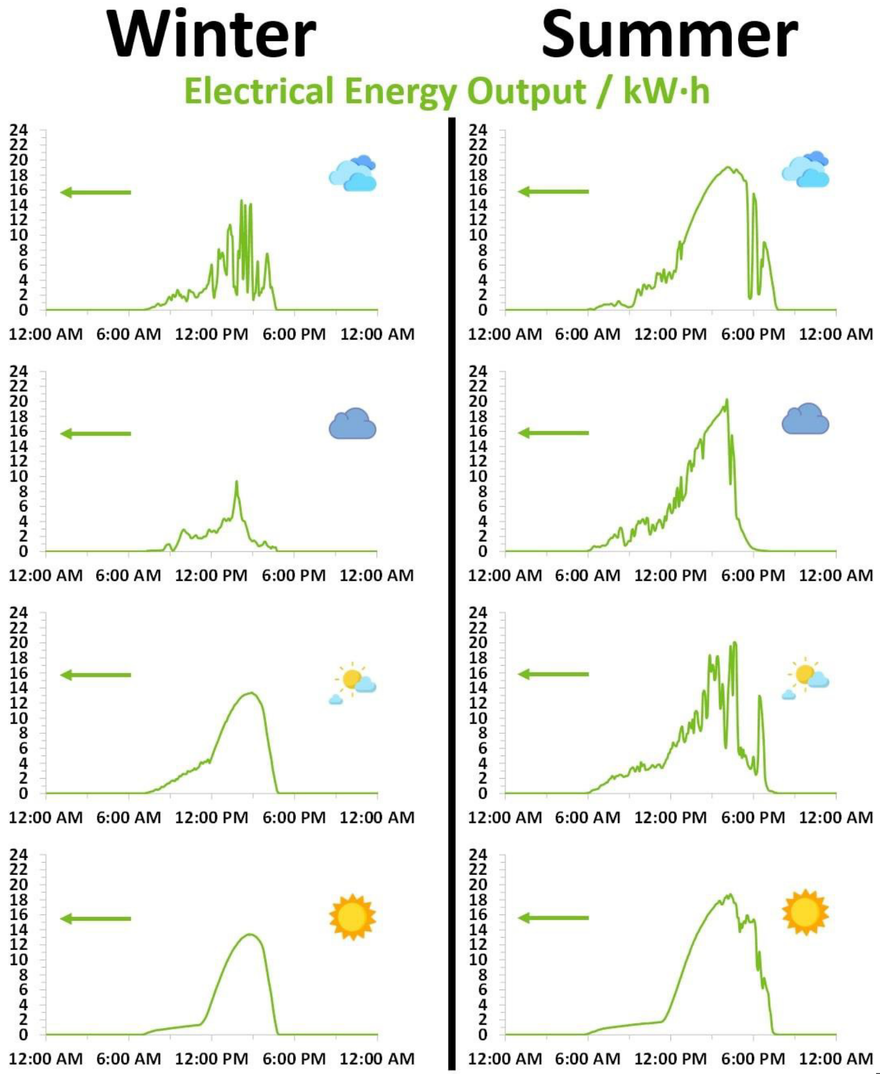
Wasn’t electrification supposed to lower rates?

- We size our portfolio for peak load and sell the excess.
- Peaks are growing faster than average load.
- Electrification adds to our peak.
- We are purchasing new renewable resources to meet electrification load.



Wasn't electrification supposed to lower rates?

- The MWh price for renewables has increased significantly since the last Strategic Plan.
- We must secure resources <u>before</u> the load appears.
- The value of being "long" depends **GREATLY** on when it happens and where we sell it.
- Managed Charging, Time of Use Rates and Demand Side Management will offset some but not all the impact.



Developing Rate Path 2.0

Key Issues

Seattle City Light

Review: Strategic Plan Draft Rate Path 1.0

NEW STRATEGIC PLAN v1.0	2025	2026	2027	2028
Revenue Requirement $M	1,140	1,202	1,254	1,322
Retail Sales GWh	9,075	9,134	9,225	9,388
Avg Rate ¢/kWh	12.6	13.2	13.6	14.1
Draft Rate Path 1.0	**4.8%**	**4.8%**	**3.3%**	**3.6%**

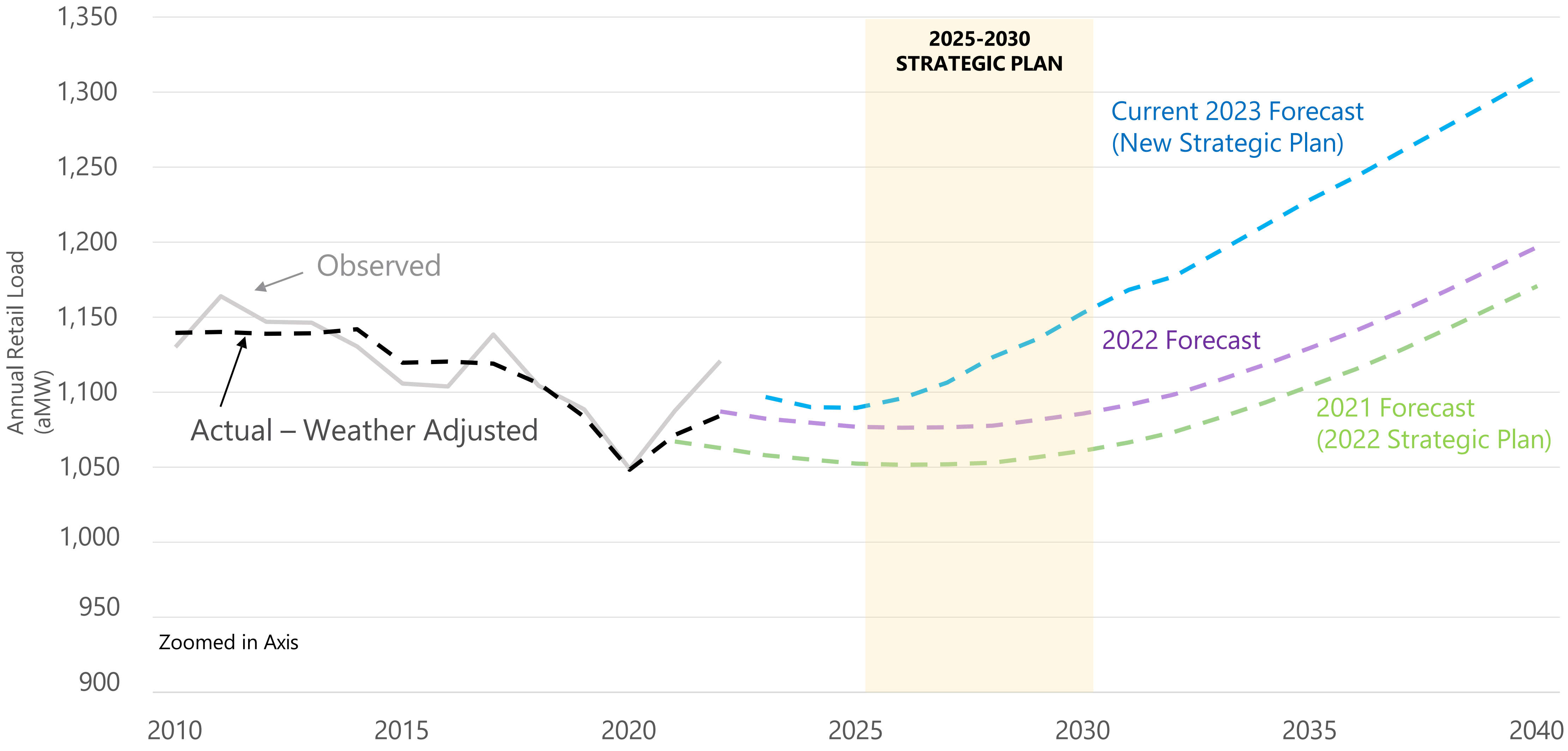
Growing Load

1. Power Costs
2. Skagit/Capital Work

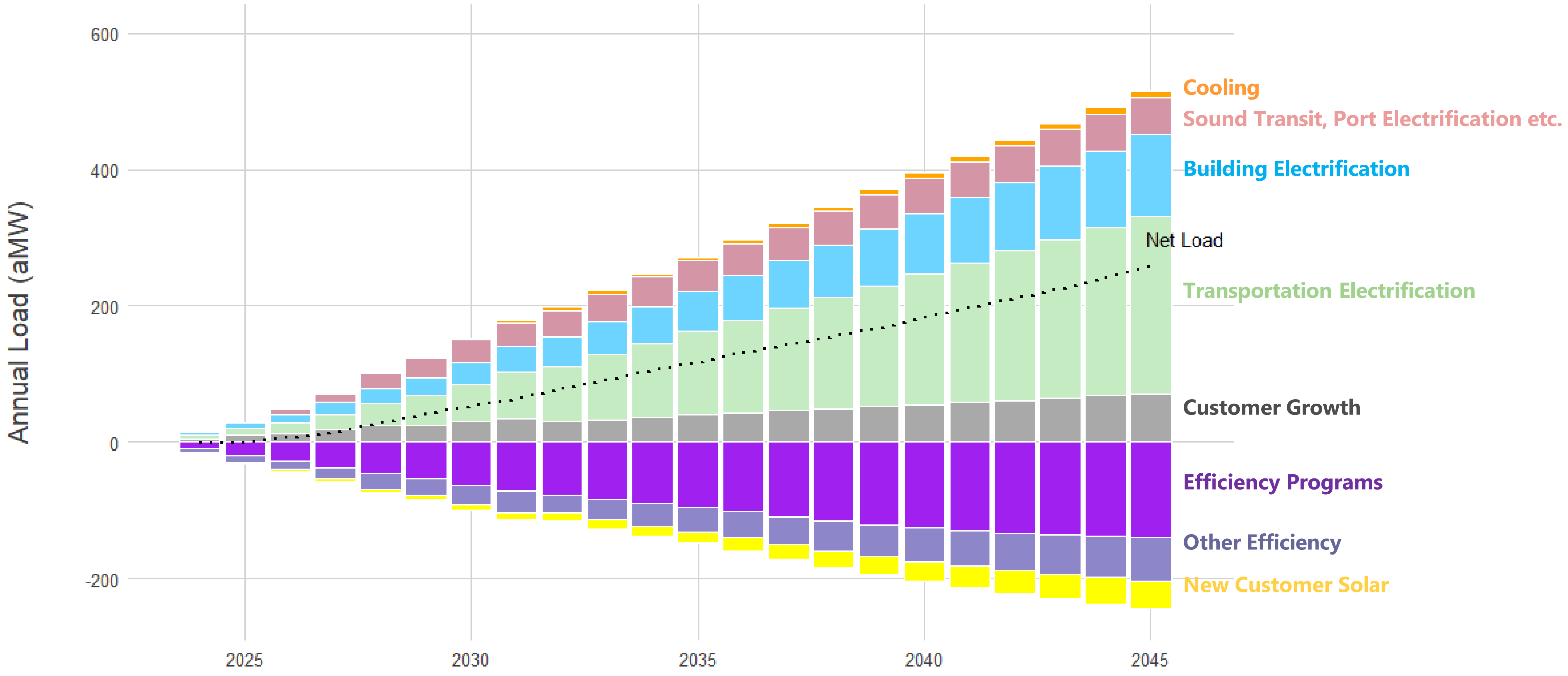
OLD 2023 STRATEGIC PLAN	2025	2026	2027	2028
Revenue Requirement $M	1,072	1,103	1,137	1,176
Retail Sales GWh	8,733	8,728	8,730	8,767
Avg Rate ¢/kWh	12.3	12.6	13.0	13.4
Old Rate Path	**3.0%**	**3.0%**	**3.0%**	**3.0%**

Inflation

Review: Load Forecast

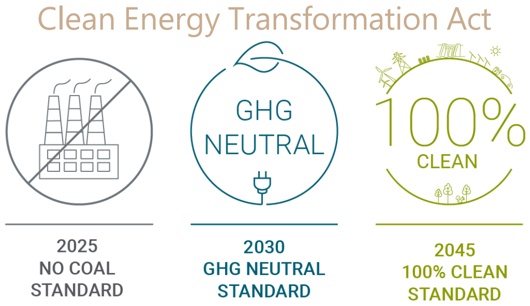


Load Forecast Drivers

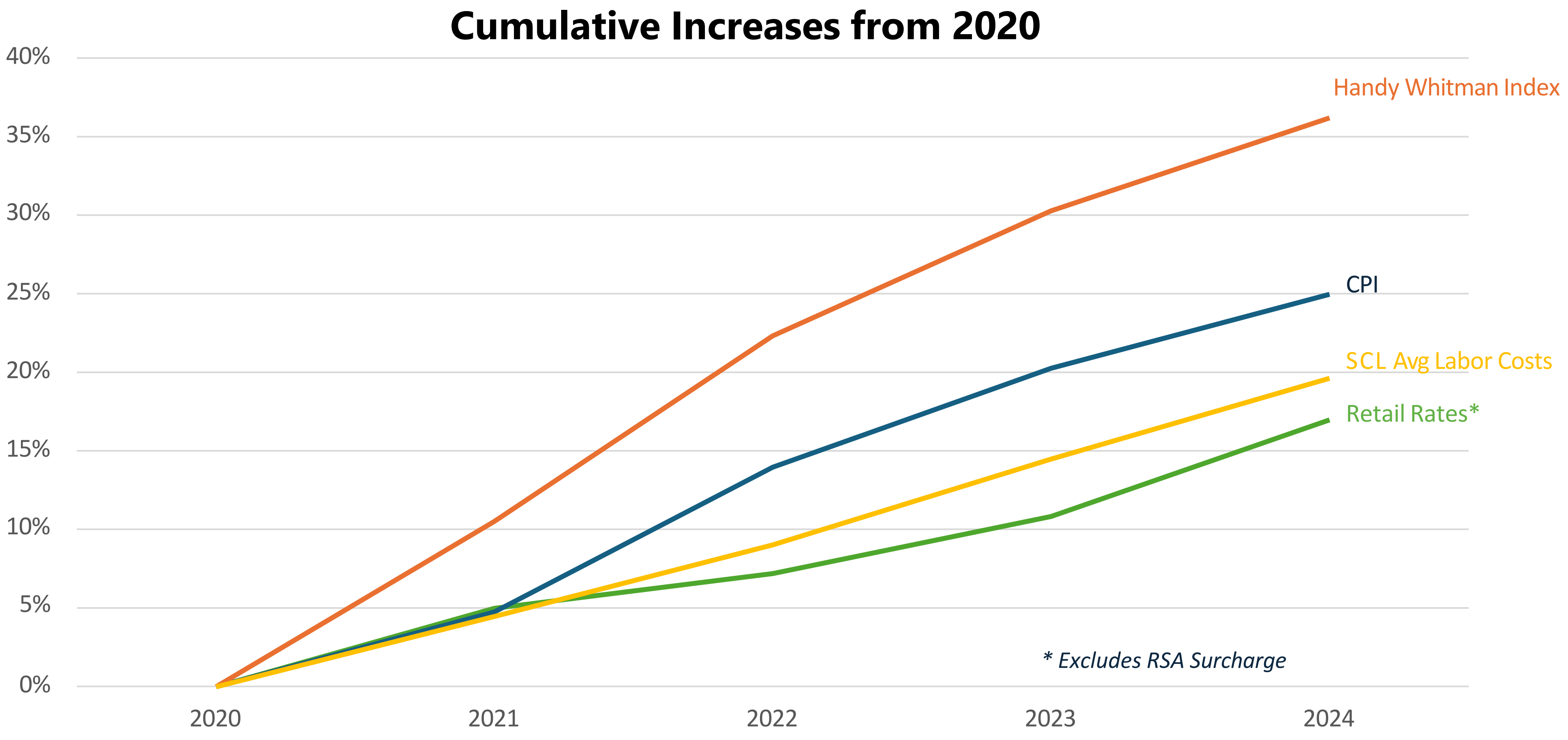


Clean Energy Transformation – New Regulations

- Clean energy legislation has altered the marketplace for materials, labor and energy nationwide.
- Deadlines now within the timeframe of Strategic Plan.
- Climate change is happening and is having an impact on energy costs.



Cost Pressure: Inflation



Cost Pressure: Energy Costs

- Many states and customers have goals to "go green" over the next 20 years.
- This puts pressure on the cost of renewable energy.
- Nationwide, PPA prices for renewable energy have doubled since late 2020.
- Washington average for 2023 PPAs (Power Purchase Agreements) was over $70/MWh.

North American Average PPA Price

LEVELTEN ENERGY
Q4 2023 PPA PRICE INDEX NA

***SP Outcome*: Seek sufficient diverse energy resources…**

***SP Outcome*: Manage resources to minimize power costs…**

Cost Pressure: Transportation Electrification

- Fueling transportation is a new line of business.
- Regulation as well as federal and state grants are accelerating this work.
- We can absorb some, but not all, of the incremental work to manage the transition.

***SP Outcome**: Align programs with customer priorities…*
***SP Outcome**: Support customer adoption of TE and BE…*
***SP Outcome**: Manage our operations within regulation…*

Cost Pressure: Building Electrification

- Residential and commercial customers are installing more heat pumps.
- Regulation as well as federal and state grants are fueling building electrification.
- Again, we can absorb some, but not all, of the incremental work to manage the transition.

***SP Outcome*: Align programs with customer priorities…**
***SP Outcome*: Support customer adoption of TE and BE…**
***SP Outcome*: Manage our operations within regulation…**

Cost Pressure: "Crowdsourcing" Energy Supply

- Distributed Energy Resources (DER) are here, and their numbers are growing.
- Customers will help us manage our peaks.
- Program, people and technology investments are needed to manage a more complex network.

SP Outcome*: *Build resiliency to prepare for changing environment…
SP Outcome*: *Invest in energy deliver infrastructure…
SP Outcome*: *Manage resources to minimize power costs…

Draft Rate Path v 2.0

SCL Draft Rate Path	2025	2026	2027	2028	2029	2030
Version 1.0	4.8%	4.8%	3.3%	3.6%	3.6%	3.6%
Changes* ($Millions)						
CIP	$15	$7	$13	$68	$75	$80
O&M	$5	$9	$13	$16	$20	$23
Version 2.0	**5.3%**	**5.4%**	**4.8%**	**4.9%**	**4.4%**	**4.3%**

Residential Rate Proposals	2023	2024	2025	2026
Tacoma Power	3.9%	3.9%		
Puget Sound Energy		1.7%	6.9%	9.6%
Snohomish Public Utilities	2.0%	6.0%		
Portland General Electric		17.2%		
Avista - Washington		13.8%	6.7%	

** Preliminary placeholder values to reflect emerging cost pressures, dip in 2026-2027 CIP reflects net impact of shifting out start date for Skagit Relicensing measures*

THANK YOU

Seattle City Light

Seattle City Light

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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**

2025 - 2030 Strategic Plan Outreach Update

City Light Review Panel
March 20, 2024

Seattle City Light

WE POWER SEATTLE

Stakeholder Group Meetings

- Key Customer Forum – October 2023
- Franchise City Forum – October 2023
- Community Action Agencies – March 2024
- NW Energy Coalition – March 2024
- Franchise Cities – March 2024
- City Light Employees Strategic Forum – March 2024
- Business Owners and Managers Association (BOMA) – March 2024 (to be confirmed)

Common Themes from Stakeholders

✓Affordability and predictability of rates

- Concern about the 2024 rate increase
- Concern about refilling the Rate Stabilization Account
- Customers would like to know when rates will change and have more clarity around the changes
- A need to reimagine City Light's bill assistance programs

✓Involve customers in decision-making

- Both residential and commercial customers want to have a greater voice in shaping new programs
- An interest in seeing City Light roll out new programs and initiatives more quickly
- An opportunity to work collaboratively with communities to meet their needs

Common Themes from Stakeholders

- ✓ Diversifying generation resources to address climate change
- ✓ Mixed feelings around electrification
  - Environmental advocates love it
  - Businesses concerned about electrification costs
  - Customers would like to see pathways to jobs for BIPOC communities and workers who may be displaced by electrification

Need more information?

To request more information:

- Email:
    - leigh.barreca@seattle.gov
    - jenny.levesque@seattle.gov

Thank you!

Seattle City Light

Seattle City Light

seattle.gov/city-light

The Review Panel Letter Outline

- Addressed to the mayor from all the Panel members
- Opening paragraph or two states endorsement of the Strategic Plan update (assuming that is what happens here)
- Noting this is an update of the prior strategic plan
- Major accomplishments that the RP wants to highlight
- Context - what has changed or is changing (for example, load increasing rapidly due to electrification of transportation and buildings and much higher power costs than what we have seen in the past)
- What City Light needs to do- and how this plan will enable City Light to do it
- Anything that is new or different in the plan approach (could refer to the Outcomes which inform the Success Measures)
- A short section for each major part of the strategic plan
- Closing
- Your names and signatures

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 de-carbonize 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 Panel[1]

Mikel Hansen
Panel Chair
Panel Position #5
Commercial Customer Representative

Anne Ayre
Panel Position #6
Industrial Customer Representative

Scott Haskins
Panel Position #2
Utility Financial Analyst

Leo Lam
Panel Position #4
Residential Customer

Kerry Meade
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Non-Profit Energy Efficiency Advocate

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Low Income Customer Advocate

Joel Paisner
Panel Position #9
Suburban Franchise Customer Representative

John Putz
Panel Position #8
At-Large Customer

Tim Skeel
Panel Position #1
Economist

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