

2018-2023 Strategic Plan

Panel Letter Topics

The purpose of this discussion is to get input from the Panel regarding the topics that should be addressed in the Panel letter regarding the 2018-2023 Strategic Plan, and a preliminary sense of the direction the Panel wants to take on these topics.

The next step will be a more detailed outline – to be reviewed at the April 3 Panel meeting. A final draft letter will be reviewed at the April 24 Panel meeting.

This outline is for discussion purposes. Everything in here can be tossed out. The final letter depends entirely on what the Panel wants to say.

1. Statement as to whether Panel supports the new strategic plan. [This could be divided into parts— goals/priorities, baseline, initiatives, rate path]

2. The context in which the Utility finds itself has evolved since 2012.
 - Declining retail demand. First noted in 2014.
 - Despite booming local economy
 - ...

 - Changes in energy markets
 - More opportunities for disruption by third party actors seeking to compete in the same market space
 - Continued weak wholesale demand
 - Price of renewables declining
 - Continued low natural gas prices
 - Evolution of market opportunities to buy and sell interruptible power (energy imbalance markets)
 - Slow but increasing adoption of EVs and residential/commercial solar [data points needed]
 - Residential energy efficiency has levelled off/easy items captured
 - Commercial energy efficiency requiring new tools
 - Cyber-security risks

- Other notable changes:
 - Other...municipal utility costs rising – centralized IT, HR, construction costs/coordination

- What hasn't changed since the 2012 plan
 - Half of SCL employees are still able to retire in the next 5 years.
 - Utility's expenses continue to climb annually well over the rate of inflation
 - Continued strong environmental stewardship focus
 - Other...

3. This is a new strategic plan.

- Original 2013-2018 plan was adopted in 2012. 2 year updates issued in 2014 and 2016.
- Process overview
 - Panel deliberations
 - Outreach process/ review of outreach results

4. Notable successes/challenges since the Strategic Plan was put in place.

- Successes:
 - Employee injury rate dropped significantly
 - New forecast methodology developed, new forecast incorporated in this plan.
 - Utility has been carbon neutral since XXXX
 - Utility has maintained the rate path to which it committed for the first 2 years of each plan and update: rate predictability. But, collected less revenue than authorized—due to declining demand.
 - Efficiency targets met
 - Solid progress on vast majority of 30+ original initiatives in plan (Focus of these was on upgrading, modernizing aging infrastructure)
 - Outage management system
 - The Plan as made adopting SCL budget much easier, and more closely linked to policy objectives (with known rate implications)
 - Employees see significant improvement in condition of infrastructure
 - Other...

- Successes In the last 2 years:
 - Rate path and efficiency targets met
 -

- Challenges:
 - Changes in leadership at utility, ongoing
 - Cost overruns on some major projects – Denny Substation, billing system—for various reasons
 - Maintaining rate path required delaying a number of capital investments
 - Net Wholesale Revenue assumptions in budget have remained too high. Strategic Plan initiative in 2014 to wean utility off NWR but current 1.5% surcharge has been in place since (Month/Year) in order to restore RSA balance.
 - Rates continue to rise much faster than inflation (some utility costs are rising faster than CPI).
 - Rate structure designed to recover over 90% of costs based on variable charges, while 45% of Utility's costs are fixed

5. The 4 Strategic Priorities in the Plan, first adopted in 2012, remain relevant and important.

Those were:

- a. Improve customer experience and rate predictability
 - b. Increase workforce performance and safety practices
 - c. Enhance organizational performance
 - d. Continue Conservation and environmental stewardship leadership
6. The Panel is very focused on affordability and rate predictability, and has asked the Utility to pull this out as essentially a *fifth* priority—it used to be subsumed under the concept of customer service. Also, the words used to capture these priorities has evolved. Today, the plan speaks to:
- a. Customer service
 - b. Affordability and rate stability
 - c. Increase workforce performance and safety practices

- d. Sustain and protect hydroelectric generation and grid infrastructure
- e. Energy and Environmental Stewardship

7. Baseline expenditure comments

- Current operating challenges that may be impacting service delivery and cost: IT Centralization and the current merged call center
- Support removing the training center and service center projects from the baseline and putting those projects on hold at this time.
- Overall concern about rate of growth in baseline: is this sustainable in an environment where demand is declining? Challenge exacerbated by current rate structure. .

8. Utility of the Future—major emphasis in Panel’s 2016 letter/the 2016 Plan update.

9. The 7 new initiatives: The Panel unanimously supports Initiatives 1-6. Divided on initiative 7.

Overall, important that none of these initiatives add money to the budget.

Savings projected from several of these initiatives, but those savings are not built into the rate path.

Panel: Why is each of these initiatives important? Are there caveats to be noted?

#1 Customer service

- Separating call center from SPU – not proposed.

#2 Business process improvements

#3 Revenue recovery and rates

#4 Managing the cost of growth

#5 Evolving energy markets

#6 Environmental Stewardship

#7 Clean, renewable-powered city

10. Race and Social Justice

11. Efficiencies

- Should there be a target in the plan? (will there be?)

12. Rate Path

- Panel requested work to smooth the rate path.
- Not clear where the cuts in 2019, 2020 should/will come from to accomplish the rate path presented.

- Distinction between rate path and customer bill impacts
 - Metric requested in 2016
- Open up RSA to serve as a reserve to manage against spikes in residential rates?
- Sell surplus property
- Other

13. Thanks/commendations/notes for the future