

## Bedwell, Heidi

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**From:** Carol <carol@aramburu-eustis.com>  
**Sent:** Thursday, July 12, 2018 5:08 PM  
**To:** Bedwell, Heidi  
**Cc:** Rick  
**Subject:** PSE Energize Eastside proposal  
**Attachments:** 2018-7-12 ATT.A 2018-5-7 SCL Review Panel letter to Mayor.pdf; 2018-7-12 to Bedwell.pdf

**Follow Up Flag:** Follow up  
**Flag Status:** Flagged

Hi, Heidi, please review and include in the official file Rick's attached comment.

Carol Cohoe, Legal Assistant  
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July 12, 2018

Heidi M. Bedwell  
Associate Planner  
Department of Planning and  
Community Development  
City of Bellevue  
450 110th Avenue NE  
PO Box 90012  
Bellevue WA 98009-9012

VIA EMAIL:  
HBedwell@bellevuewa.gov

Re: "Energize Eastside" Proposal

Dear Ms. Bedwell:

I am writing today on behalf of CENSE to comment further on the PSE proposal for new 230 kV transmission lines, branded by PSE as "Energize Eastside."

We are aware that PSE has purchased substantial print and electronic advertisement for its "Energize Eastside" project. These advertisements claim that the transmission project is important because of increasing electric demand on the Eastside. However, all over the country demand for electricity is declining, creating serious declines in revenue for utilities.

These issues have recently come to a head in Seattle as the Seattle City Light (SCL) five year "Strategic Plan" is reviewed. The City Council has created the "Seattle City Light Review Panel" to provide rate payer input to the Council on SCL policies and plans. As sister cities, with common themes of growth and commercial development, the work of the SCL Review Panel is useful for Bellevue's situation and the City's review of PSE's claims. A copy of the Review Panel's May 7, 2018, letter to the Council is attached for your review.

From a rate payer perspective, the Panel is ringing the alarm bell that: *"it is time for the City to place much more focus on controlling the Utility's costs going forward."*

(Emphasis in original). The context identified is found on pages 2 and 3, noting that conditions have changed substantially since 2012:

The most significant change is the arrival of something other utilities around the county have been experiencing for some time: *declining retail demand for power.*

(Emphasis in original.) As the Review Panel notes, the technical team from SCL confirms that:

we can expect average annual growth rate *in retail electricity sales to decline by an estimated -0.4% per year over the next 20 years.* This decline is the net result after considering economic growth (increasing demand) and increasing energy efficiency (reducing demand).

(Emphasis in original.) In short, Puget Sound, and much of the rest of the country, will see electric demand decreasing, not increasing as PSE claims.

The reductions in demand are on one hand excellent news for consumers who are using less electricity and reducing electric bills. However, the declines in load also result in declining revenue, a substantial issue in Seattle as the Review Panel's letter indicates. These revenue declines also impact PSE, who is subject to the same market forces. However, there is a major difference between SCL and PSE. SCL as a public entity does not need to make a profit; its objective is to balance revenues with expenditures. PSE is different: it is a private company, with private ownership, and must make a profit to satisfy its shareholders and to make it a desirable asset for a prospective purchaser.

How does all this relate to "Energize Eastside?" In Seattle, no responsible public official would consider a major addition to electric infrastructure in a time of declining markets. The response to declining demand for gasoline is not to install more pumps. But for PSE, the economics are different. It has a foolproof plan: it builds a project like "Energize Eastside" and is guaranteed a 9.8% return on its investment, even if the project provides little public benefit. As described above, PSE has hired professional public relations persons to blanket the Eastside with all variety of promotional material to support its plan.

The need and growth assumptions in the electric power industry are changing quickly. That electric demand is declining is the new reality and assumptions made only two or three years ago are no longer valid. The project description in the Interlocal Agreement of 2015 emphasizing increased consumption is no longer valid and must be revised not only for Bellevue but for the other participants in that agreement. Proceeding blindly on outdated assumptions is not only improper, but will likely be overturned by Hearing Examiners and the Courts as misguided prejudgement.

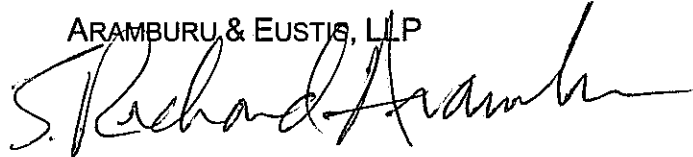
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CENSE and its members, who are Eastside residents and business owners, request the City closely examine the new reality of declining demand in its review of the PSE proposal and revise the "Project Description" in the Interlocal Agreement.

Thank you for your continued attention to CENSE's concerns.

Sincerely,

ARAMBURU & EUSTIS, LLP

A handwritten signature in black ink, appearing to read "J. Richard Aramburu". The signature is fluid and cursive, with a long horizontal stroke at the end.

J. Richard Aramburu

JRA:cc

cc: CENSE

**Seattle City Light Review Panel**

c/o K. Wingers, Seattle City Light  
P.O. Box 32023 Seattle, WA 98124-4023  
[CLRP@seattle.gov](mailto:CLRP@seattle.gov)

May 7, 2018

***Sent via email and hand delivery***

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

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

Dear Mayor Durkan:

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

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

The Planning Process

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

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Panel letter to Mayor.pdf

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

### Customer Outreach

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

### Success since Adoption of the 2013-2018 Strategic Plan

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

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

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

### Current Challenges

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

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

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

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

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

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

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

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

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

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

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

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

Within the Utility itself, we see other challenges:

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

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

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

### 2019-2024 Strategic Plan

- **Plan Priorities**

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

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



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

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

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

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

- **Baseline Expenditures**

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

- **Seven Initiatives**

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

- **Rate Path**

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

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

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

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

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

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

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

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

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

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

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

- **Other Action Items for Consideration**

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

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

### Conclusion

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

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

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

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

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

Sincerely,

**Members of the City Light Review Panel**



**Gail Labanara, Panel Chair**

*Panel Position 9:*

Suburban Franchise  
Representative



**Patrick Jablonski, Panel Vice Chair**

*Panel Position 6:*

Industrial Customer



**Nina Sidneva**

*Panel Position 1:*

Economist



**Cal Shirley**

*Panel Position 2:*

Financial Analyst



**Sara Patton**

*Panel Position 3:*

Non-Profit Energy  
Efficiency Advocate



**Thomas Buchanan**

*Panel Position 4:*

Residential Customer



**David Allen**

*Panel Position 5:*

Commercial Customer



**Leon Garnett**

*Panel Position 7:*

Low-Income  
Communities Advocate



**John Putz**

*Panel Position 8:*

At-Large Customer

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

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



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

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

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