



City of Seattle  
Gregory J. Nickels  
*Mayor*

March 3, 2003

Putnam Barber  
Municipal League of King County  
810 Third Avenue, Suite 224  
Seattle, WA 98104

Dear Mr. Barber:

Last week, you and others from the Municipal League testified to the City Council in opposition to the re-confirmation of Gary Zarker as Superintendent of City Light.

Drawing on documents and interviews gathered by your organization and by Vantage Consulting, you made three assertions that fall apart in light of a review of City files, City Light's year-end 2002 financial report and a report on City Light by an independent consultant.

The Municipal League has a long history of accuracy and fairness in its evaluations of important community issues. I have a deep respect for the League's contributions to non-partisan, thoughtful debate. Unfortunately, this time the League's conclusions are wrong.

Paraphrasing testimony last week by League members, three significant points were raised:

- The council in 1999 was not fully informed on risks and alternatives associated with the sale of the Centralia Coal Plant. (Testimony of Bruce Bradburn)
- There is a lack of senior utility managers at City Light with in-depth electric utility management. (Testimony of Putnam Barber)
- There are no signs that City Light leadership has taken seriously the need for cost cutting and reducing debt. (Testimony of Putnam Barber)

#### **The Centralia sale**

The attached October 19, 1999 memorandum to the Utilities and Environmental Management Committee by Council staff member Tony Kilduff and others, directly contradicts the assertion that the council was not fully informed about risks and alternatives to the Centralia sale.

That memo specifically acknowledges:

- Risks associated with selling Centralia and turning to the market to replace that lost supply of electricity.
- The expectation that non-hydro renewable energy will cost significantly more than market-priced energy.
- Uncertainty surrounding BPA rates and policies.

The memo fully discloses how the Centralia sale would increase risks, increase costs, and impact rates. The Council agreed that the utility should go to the market for the replacement power because there were no cost-effective short term alternative resources available. The memo reflected the utility's concerns that despite a forecast showing rising energy costs, the forecast "may still be underestimating the rise in market prices."

I would direct particular attention to the following two sentences from the Council staff memo:

"The utility realizes that in the long run it will need to find cost-effective resources to replace the market, but for this rate period, consistent with direction from Council during discussion of the 1997 Strategic Resources Assessment, it is assuming it will rely on the market as the marginal resource." (pages 5 and 6)

"Load growth, the loss of Centralia, and some reduction in capability of its generation will result in an increasing share of load being met from the market unless the utility can find a cheaper substitute. For the purpose of this rate period, City Light believes it would be unwise of it to develop its rate proposal on the assumption that something cheaper will become available in the next three years." (page 6)

The League says that the Council was not well informed of the risks in selling its interest in the Centralia plant. But the facts show that the Council's decision culminated a five-year process that was thorough, deliberate and well informed. Documents provided to the Council as far back as 1996 laid out the options for Centralia which included the clean-up, sale and closure of the facility and the impacts those actions would have on the utility and rates.

To be sure, there were unforeseen consequences, but the decision was appropriate for its time.

### **Qualifications of senior management**

In a collaborative effort, the Council and I asked EES Consulting to examine the issue of City Light's senior management team.

The report, completed February 27, compared the qualifications of City Light's management with those found at larger West Coast publicly-owned utilities. The report found that Gary Zarker was qualified for his position and disputed the assertion that City Light's senior management lacked sufficient qualifications.

"Although strengths and weaknesses varied between utility branches and between managers, overall, the remaining management positions appear to have an equivalent level of qualifications relative to personnel at comparable positions in the utilities surveyed." (page 32)

EES Consulting recommended the creation of a new Chief Operating Officer position, first proposed by members of the City Council, and supported by the Superintendent and me. The idea especially has merit given the continuing demand on the Superintendent's time to play a national role in debate over energy policy. Deregulation of energy markets would be harmful to our customers and our region's economy; the Superintendent and I will both play an aggressive role on this issue.

**Cost-cutting**

The League is dead wrong on the claim that City Light's finances are not improving. In a report on year-end finances made today to the City Council, Superintendent Zarker and his staff showed that the utility cut \$65 million in operating, maintenance and capital costs from its overall budget of \$541 million in 2002. That is far in excess of the \$37 million in cuts I asked City Light to make.

There is no question that Superintendent Zarker is cutting costs and hitting the financial targets that I have set for him. In 2001, the energy crisis produced \$280 million in short-term debt. But Gary has turned things around. In 2002, City Light produced nearly \$100 million in net income that will go to retiring the debt. With Gary's leadership, we are meeting our forecasts and goals to eliminate the debt completely by the end of 2004.

The notion that Gary Zarker has not taken seriously the need to cut costs is wholly unsupported by the facts. I am very pleased with the agency's financial turnaround, a tribute to Gary Zarker's talents as a manager and leader.

Having gone through a period that disrupted utilities throughout the West, Seattle City Light is on a path of recovery. The Council must re-confirm Gary Zarker in recognition of his leadership during a crisis and to continue the improvements we've seen and the improvements we expect.

To not confirm Gary Zarker would create delays to that recovery and would put the utility into a holding pattern that would last for at least a year while a search process locates a suitable successor.

City Light is improving, and to continue its momentum, the Council must re-confirm Gary Zarker. I have confidence that, with all of these facts in view, the Council will make the right decision.

Sincerely,



GREG NICKELS  
Mayor of Seattle

Enclosures

