

City Light Rate Stabilization Account (RSA) Transfer Ordinance

Economic Development, Technology & City Light Committee

April 26, 2023

Purpose of RSA Transfer Legislation

Situation: Per RSA rules, an automatic 4% electricity rate surcharge will go into effect June 1, 2023, without Council action

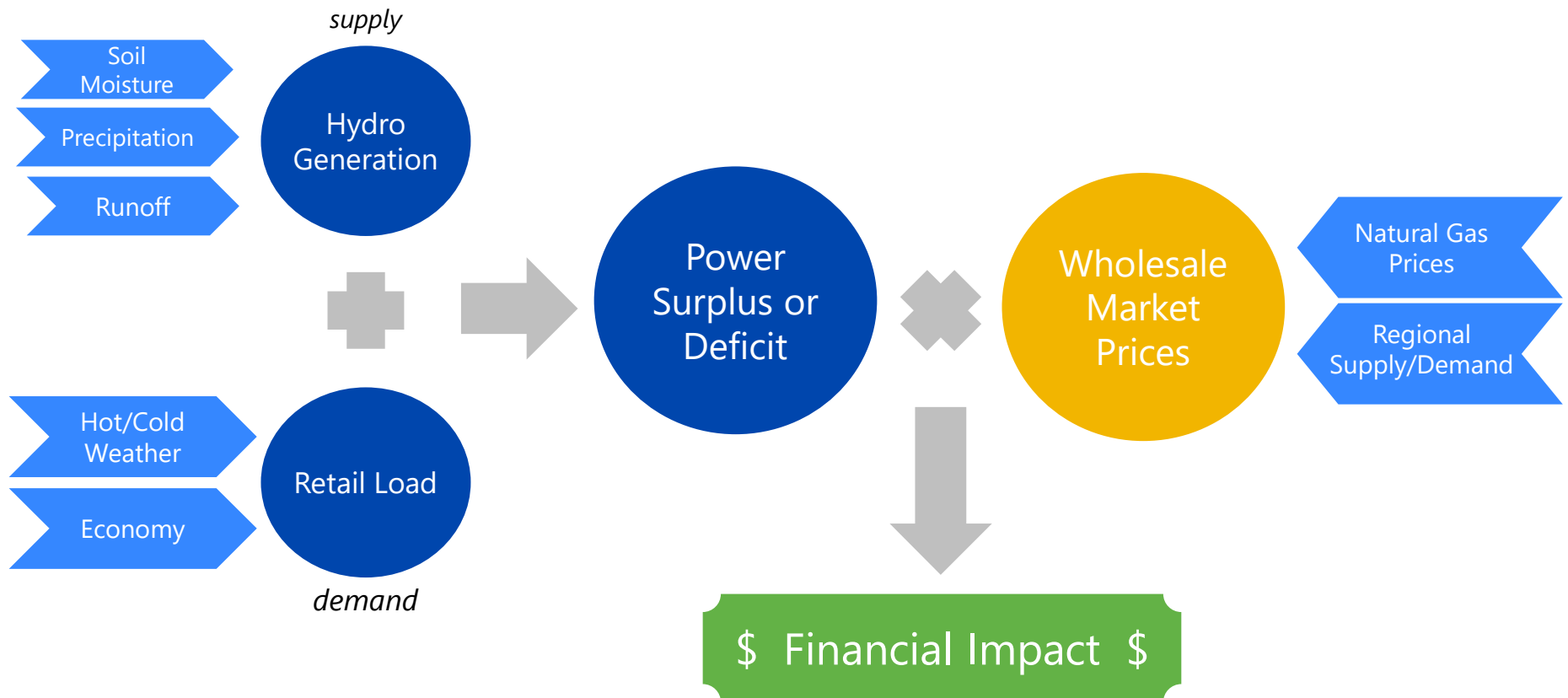
Legislation: Ordinance authorizes transfer of surplus operating cash into the RSA to forestall surcharge

Background: What is the RSA?

- Electric utilities buy and sell power on the wholesale market to balance supply and demand
 - Hydropower supply, retail load and wholesale market prices are all significant risks
- The RSA is a ~\$100M cash reserve that buffers financial impacts of wholesale market activities
 - Established by City Council in 2010
 - Revenues from surplus energy sales are deposited into the RSA, and withdrawals are made for purchases
- If the RSA becomes depleted, automatic rate surcharges are triggered to replenish it



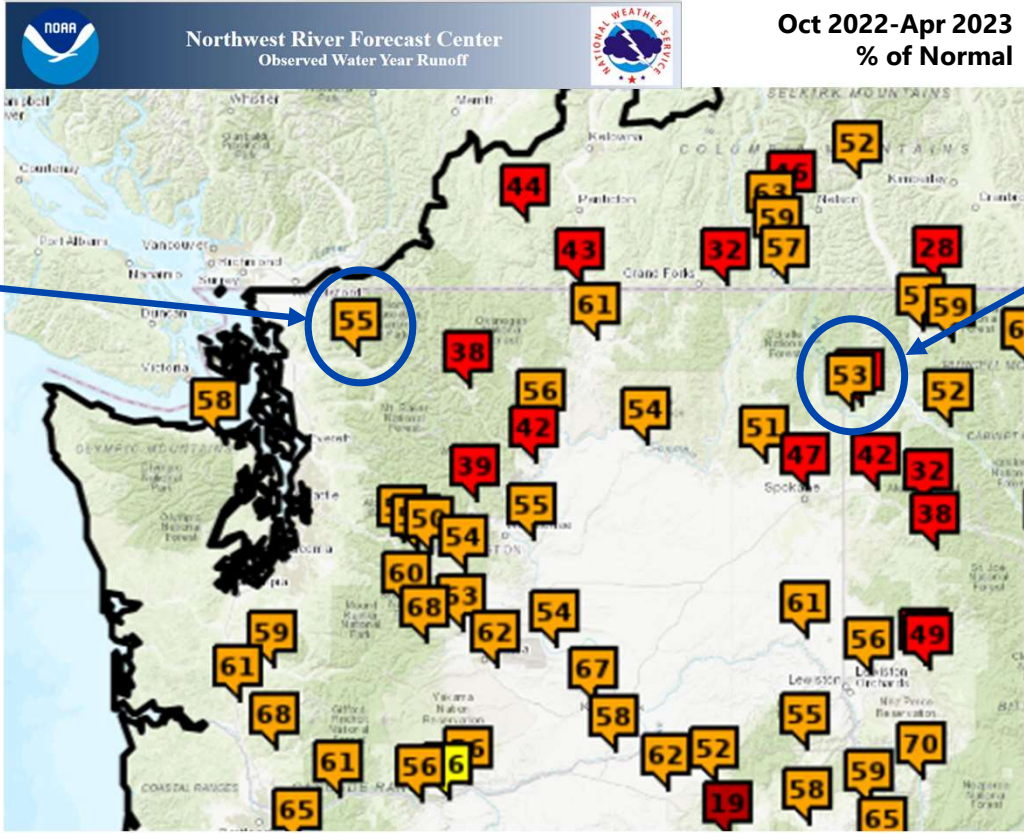
Wholesale Market Dynamics & Risks



Winter 2022-2023 Recap



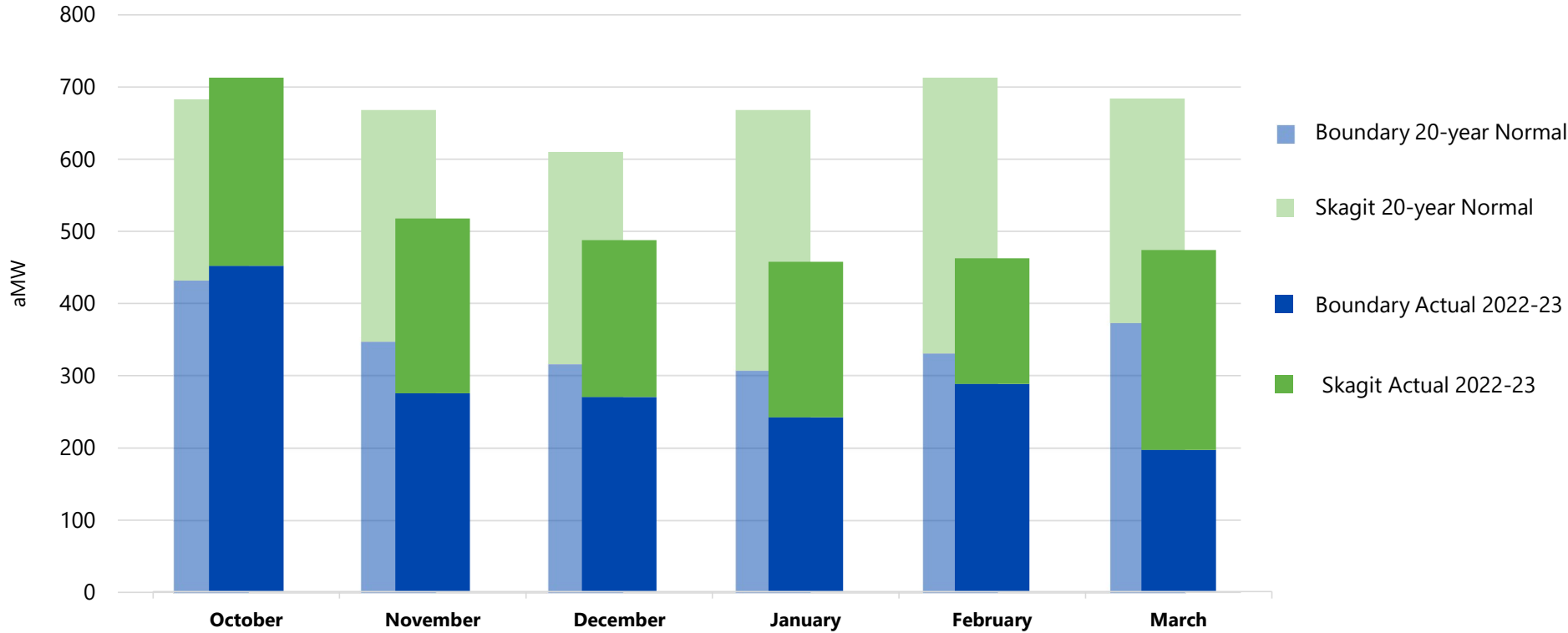
Dry Winter Hydro Conditions



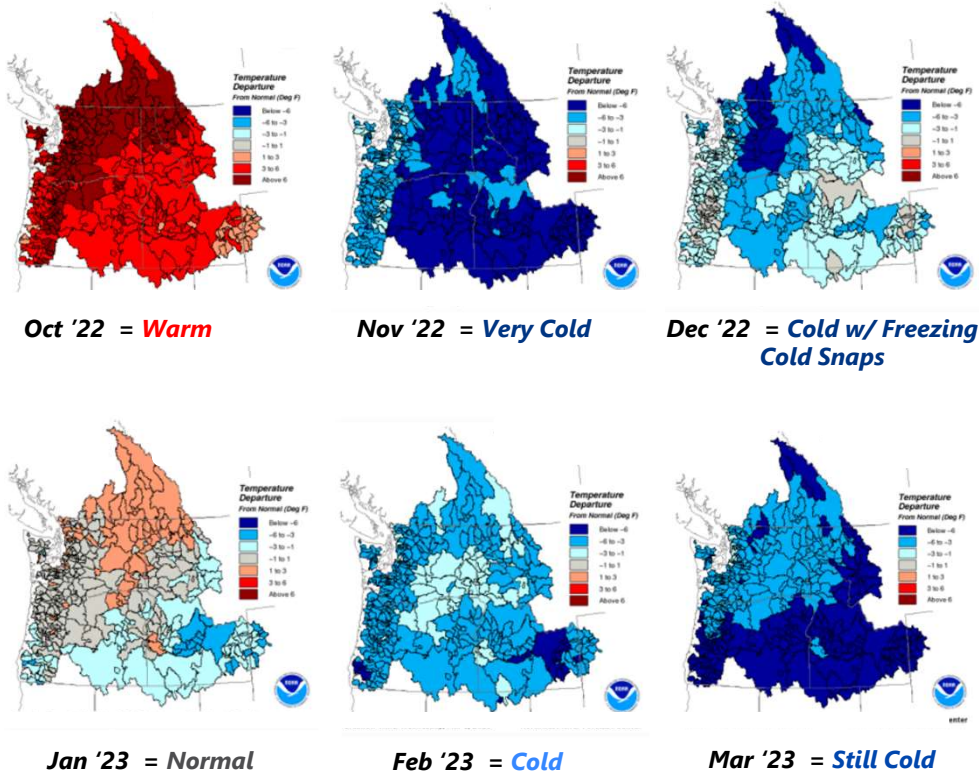
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Boundary

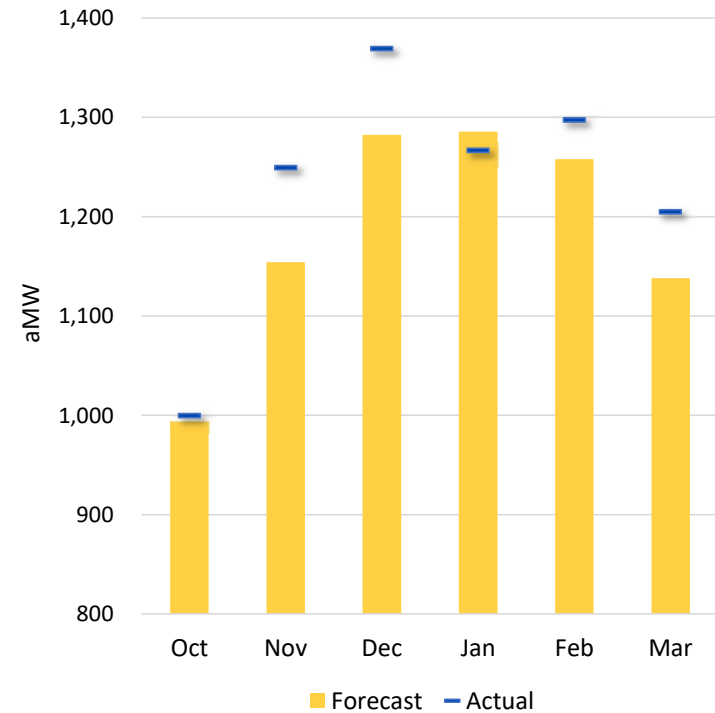
Below Normal Winter Hydro Generation



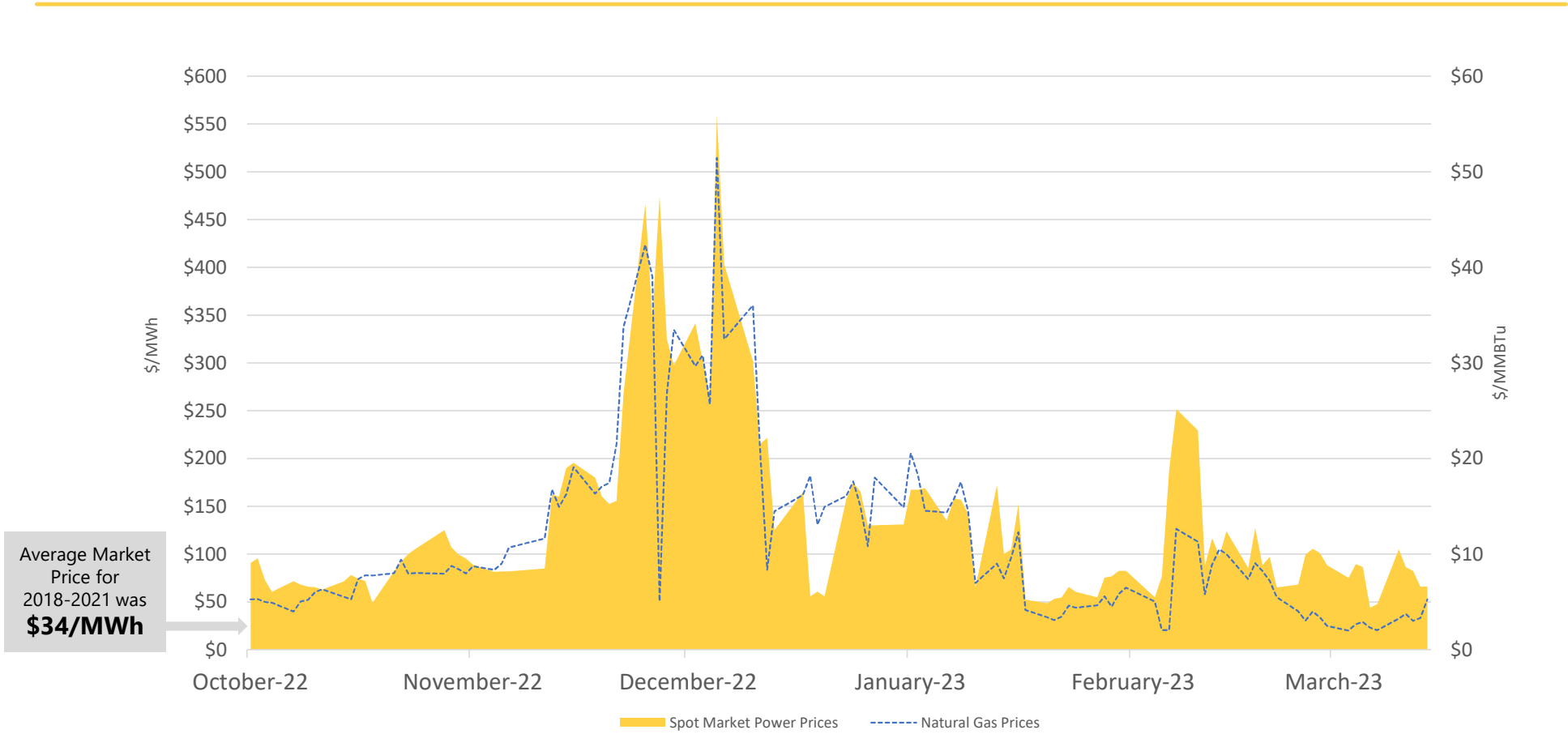
Cold Winter Temperatures Drove Up Demand for Electricity



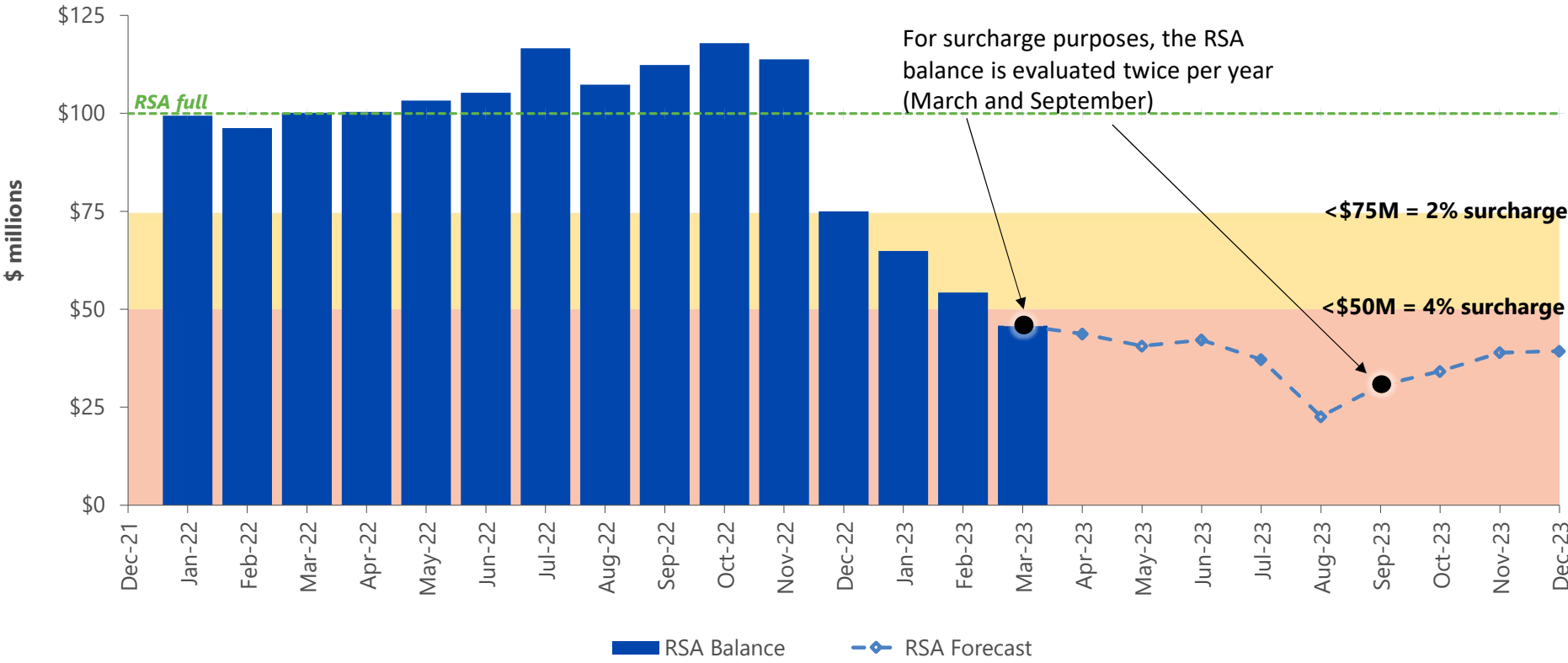
CITY LIGHT RETAIL DEMAND (LOAD)



High Market Prices



RSA Status & Outlook*



*As of March 31, 2023

RSA Transfer Background

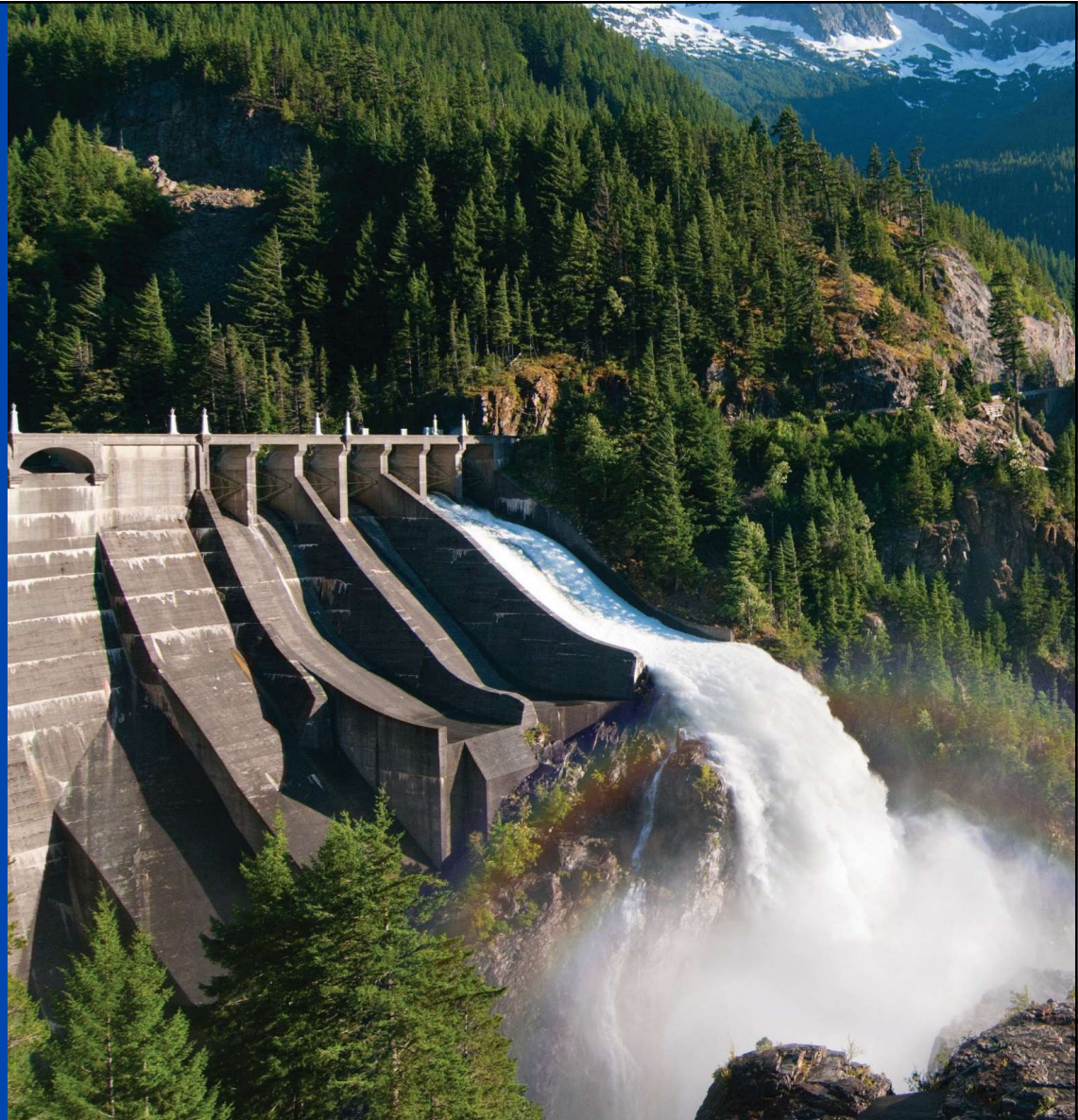
- Justification
 - Strong liquidity: \$356 million operating cash
 - Excellent financial performance in 2022, positive outlook for 2023
 - Historical precedent, transfers also made in 2011, 2012, 2013 and 2021
- Risks
 - Cash transfer to RSA will incrementally weaken financial results*
 - Potential credit rating impacts- looking to maintain strong likelihood of > 1.80x debt service coverage
- Proposal
 - Initial transfer of \$30M (bring RSA balance up over \$75M)
 - Second transfer in September if financials can support

RSA Transfer Amount \$M	Debt Service Coverage**
\$0	2.05x
\$14	2.00x
\$25	1.95x
\$30	1.93x
\$37	1.90x
\$49	1.85x

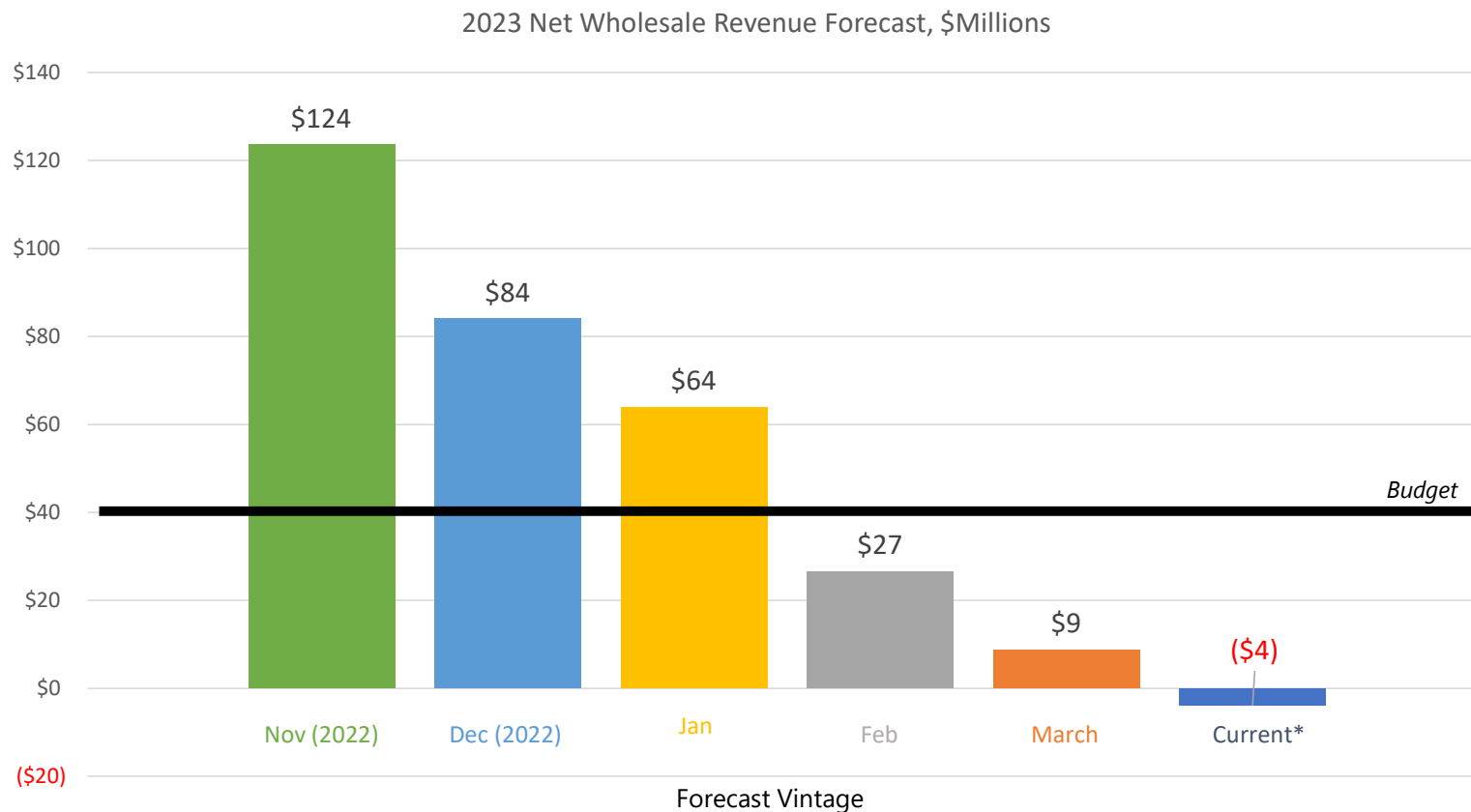
* Transfer will behave like a new expense, reducing 2023 financial results (debt service coverage, etc.) and incrementally impacting leverage/rates

**Debt service coverage is City Light's primary financial metric- based on forecast as of 3-30-2023

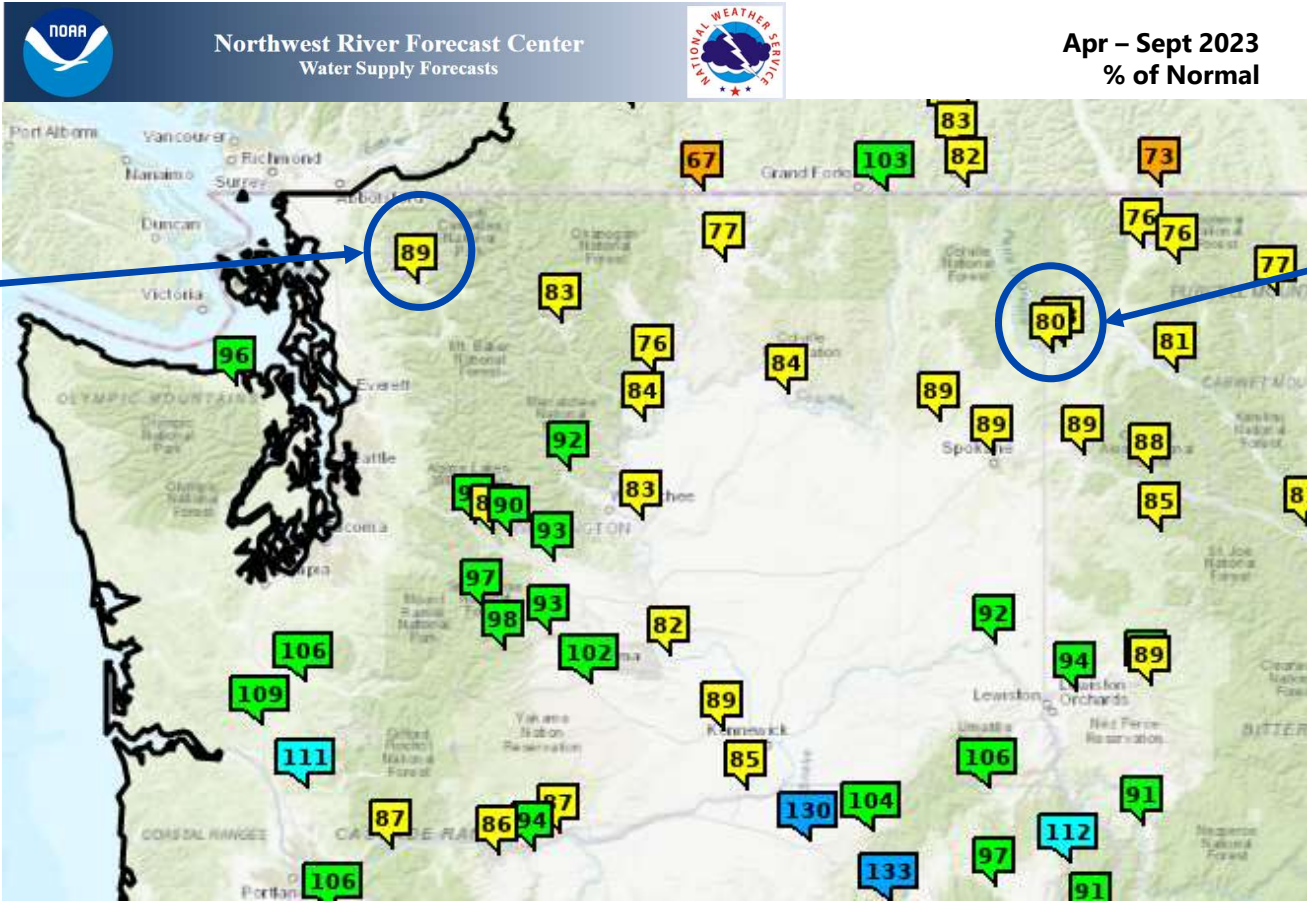
Looking Ahead to the 2023 Runoff Season and Beyond



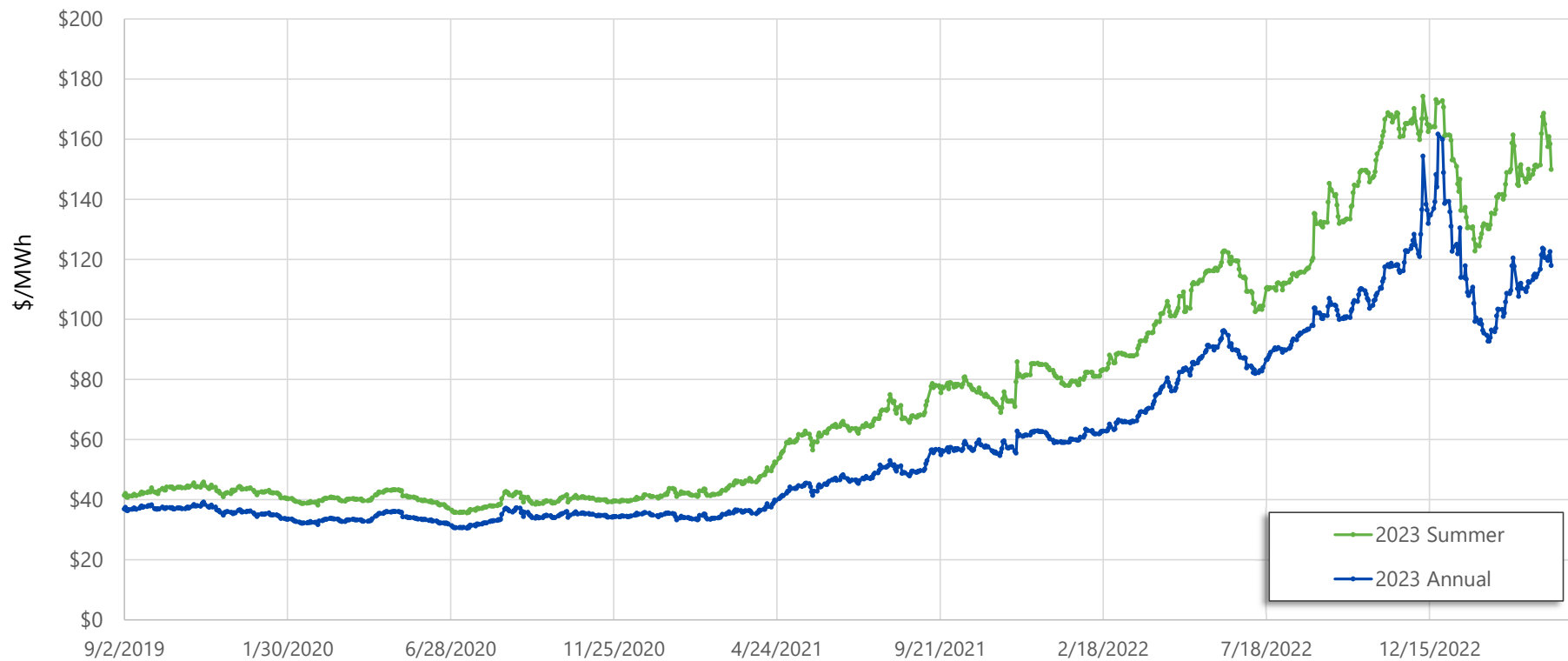
2023 Wholesale Outlook has Deteriorated



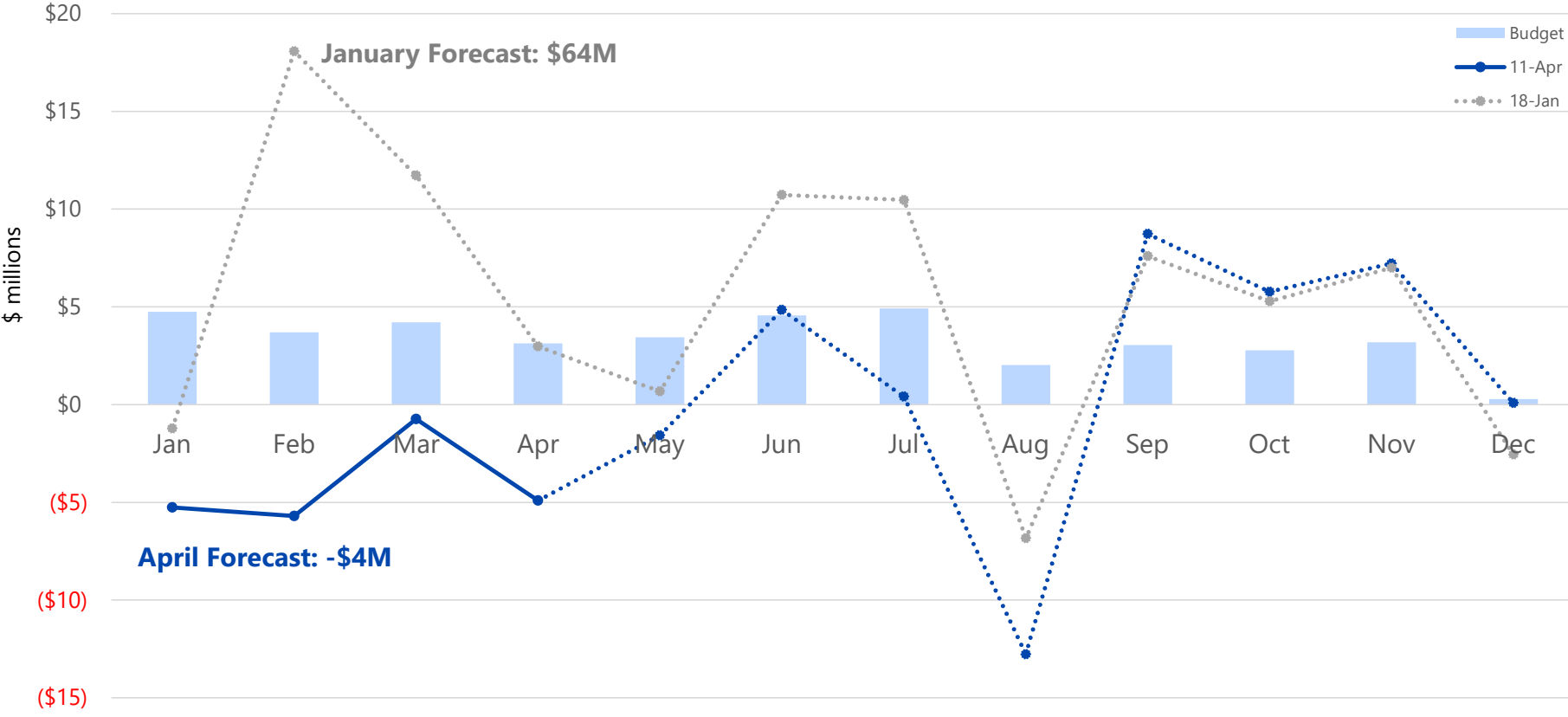
Spring/Summer Hydro Runoff Forecast



Wholesale Market Prices for 2023 are High



2023 Net Wholesale Revenue Outlook



Recommended Next Steps

- Ordinance (if approved) will forestall spring 2023 RSA surcharge
 - Enables immediate RSA transfer from operating cash to avoid a June 1 RSA surcharge, AND
 - Authorizes another transfer later in the year if needed to avoid a fall RSA surcharge (which would go into effect January 1, 2024) if financial position (1.85x+ debt service coverage) allows
- Active management of supply/demand balance and wholesale market risk
 - Monitor the runoff and refine hydro generation forecasts
 - Hedging for the summer heating season and managing deficits
- Planning for future power needs
 - Integrated Resource Plan (IRP) calls for new long-term resource acquisition
 - Engagement in WEIM and WRAP provide better visibility of and access to regional resources

POWER SEATTLE



Seattle City Light