

April 20, 2023

MEMORANDUM

To: Economic Development, Technology and City Light Committee
From: Eric McConaghy, Analyst
Subject: Transfer from Light Fund to Rate Stabilization Account Ordinance

On April 26, 2023, the Economic Development, Technology and City Light Committee (Committee) will discuss and possibly vote on an ordinance that would authorize Seattle City Light (City Light) to transfer cash available in the Light Fund for debt service coverage to the Rate Stabilization Account (RSA) in June 2023 and again later in 2023, as necessary.

The RSA serves as a reserve fund for City Light to decrease the need to adjust customer rates that would otherwise result from extreme swings in City Light’s wholesale revenues. City Light is seeking the authorization to transfer the cash to prevent the automatic addition of a surcharge on customer bills based on the current RSA balance per [Seattle Municipal Code \(SMC\) 21.49.086](#).

This memorandum provides background, outlines the decrease in the RSA balance, and describes the effect of the proposed legislation.

Background

The purpose of the RSA, established by [Ordinance 121637](#) and most recently amended by [Ordinance 126502](#) in 2021, is generally to cope with fluctuations in City Light’s net wholesale revenue. City Light receives net wholesale revenue from sales of power in energy markets that is surplus to the needs of City Light’s retail customers. In general, City Light’s operating and capital budgets rely on retail revenue, wholesale revenue and borrowed money (bond sales).

Whenever net wholesale revenue during any month of the year falls below the amount allocated in the forecast for that month, then the SMC requires that City Light transfer the amount of the shortfall from the RSA to the Light Fund. If monthly net wholesale revenue exceeds the forecasted amount, then City Light must transfer the excess from the Light Fund to the RSA. In either case, the SMC states that the transfer will occur within 30 days of the end of the month in question.

SMC specifies the annual net wholesale revenue forecasts for 2022 and 2023 as \$40 million for each year. As required by SMC 21.49.086, City Light allocates the yearly wholesale revenue forecast by month, see Table 1, below.

Table 1: Net Wholesale Revenue Forecasts for 2022 and 2023, by Month

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2022	4.67	4.67	4.67	2.67	2.67	2.67	2.00	2.00	2.00	4.00	4.00	4.00	40.00
2023	4.74	3.70	4.21	3.13	3.44	4.56	4.91	2.02	3.04	2.77	3.19	0.28	40.00

\$Millions

The SMC provides for the replenishment of the RSA with funds from surcharges added to retail rates when the RSA balance is less than specified thresholds. When the amount in the RSA is \$75 million or less on either March 31 or Sept 30, City Light must impose a surcharge on all retail customer bills equal to 2 percent of base rates and deposit the proceeds from the surcharge into the RSA. Once imposed, the surcharge remains in effect until the amount in the RSA reaches \$100 million.

The SMC requires an additional surcharge of 2 percent (for a total of 4 percent) when the RSA is drawn down below \$50 million. As above, the surcharge remains in effect until the amount in the RSA reaches \$100 million.

Surcharges may be initiated twice per year, on either January 1 or June 1 and they should be lifted within 90 days of when the month-end balance has reached the relevant threshold. The SMC states that City Light will notify the Mayor and the Council in writing of any upcoming surcharge change before it is implemented.

If for any reason the RSA balance is \$25 million or less at the end of a month, the SMC requires City Light to notify the Council within 30 days and requires the Council to begin a rate review within 45 days, if the Mayor has not already done so, that would “increase rates, reduce Department spending, or identify additional sources of funding, or a combination of these measures, to bring the amount in the (RSA) up to \$100 million within a period of 24 or fewer months.”

City Light customers paid a RSA surcharge between August 2016 and April 2021. The codified surcharge increments were 1.5 percent and 3 percent during this period. City Light imposed a 1.5 percent surcharge in August 2016, increased the surcharge to 3 percent in November 2019 and removed the surcharge entirely in April 2021.

Decrease in RSA Balance

During the last quarter of 2022 and the first quarter of 2023, City Light made the required transfers from the RSA to the Light Fund to compensate for under-target wholesale revenues. Several factors contributed to low net wholesale revenues and the resulting decrease in the RSA balance.

The precipitation necessary to drive City Light’s hydropower generators was lower than usual resulting in less surplus power to sell wholesale. Also, cold winter temperatures caused increased demand for power and the increased demand and other market factors drove up wholesale power prices. City Light had to buy power to meet demand at the higher wholesale prices.

Simultaneously, City Light’s retail sales increased resulting in a greater than planned balance in the Light Fund. City Light reports that retail revenue was more than \$50 million higher than planned in 2022 and expects retail revenue in 2023 to exceed \$20 million more than planned.

Effect: Transfer Cash from Light Fund to RSA

The proposed Light Fund to RSA transfer ordinance would allow City Light to transfer cash available in the Light Fund to the RSA to prevent the need to impose a surcharge on customer rates in June 2023 as required by the SMC. The RSA balance fell from over \$100 million to \$45.8 million between November of 2022 and March 2023. As described above, this amount is lower than the \$50 million threshold and triggers the required 4 percent surcharge on customer rates on June 1, 2023.

The proposed ordinance would allow City Light to execute multiple transfers from the Light Fund to the RSA in 2023 as necessary to replenish the RSA to prevent the required surcharge. The total amount of 2023 transfers from the Light Fund to the RSA would be limited to less than \$100 million.

The total amount of all transfers would also be limited to the amount of cash in the Light Fund available for debt service in 2023 that is in excess of the amount necessary to maintain a debt service coverage ratio of 1.85 (consistent with financial policies that the City adopted through [Resolution 31187](#)). City Light’s debt service coverage ratio equals the net revenue (revenue after subtracting operating expenses) divided by the total of interest and principal payments on debt.

Upon approval of the legislation, City Light would transfer \$30 million to increase the RSA balance above the \$75 million dollar threshold to prevent the imposition of the surcharge. Council has previously authorized similar transfers from the Light Fund to the RSA. The authorized amounts by ordinance and year are shown in Table 2, below:

Table 2: Cash Transfers from Light Fund to RSA

Year	Dollars	Authorizing Ordinance
2011	40.5	123757
2012	22.0	124059
2013	21.0	124426
2021	15.0	126502

\$millions

Next steps

If the Committee votes to recommend the proposed ordinance to the Council during the April 26 meeting, then Council could take final action as soon as May 2.

- cc: Esther Handy, Director
- Aly Pennucci, Deputy Director
- Brian Goodnight, Lead Analyst