



# SEATTLE CITY COUNCIL

## Economic Development, Technology, and City Light Committee

### Agenda

Wednesday, May 10, 2023

9:30 AM

Council Chamber, City Hall  
600 4th Avenue  
Seattle, WA 98104

Sara Nelson, Chair  
Debora Juarez, Vice-Chair  
Lisa Herbold, Member  
Kshama Sawant, Member  
Dan Strauss, Member

Chair Info: 206-684-8809; [Sara.Nelson@seattle.gov](mailto:Sara.Nelson@seattle.gov)

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<http://seattle.gov/cityclerk/accommodations>.



**SEATTLE CITY COUNCIL**  
**Economic Development, Technology, and City**  
**Light Committee**  
**Agenda**  
**May 10, 2023 - 9:30 AM**

**Meeting Location:**

Council Chamber, City Hall, 600 4th Avenue, Seattle, WA 98104

**Committee Website:**

<https://www.seattle.gov/council/committees/economic-development-technology-and-city-light>

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This meeting also constitutes a meeting of the City Council, provided that the meeting shall be conducted as a committee meeting under the Council Rules and Procedures, and Council action shall be limited to committee business.

Members of the public may register for remote or in-person Public Comment to address the Council. Details on how to provide Public Comment are listed below:

Remote Public Comment - Register online to speak during the Public Comment period at the meeting at <http://www.seattle.gov/council/committees/public-comment>. Online registration to speak will begin two hours before the meeting start time, and registration will end at the conclusion of the Public Comment period during the meeting. Speakers must be registered in order to be recognized by the Chair.

In-Person Public Comment - Register to speak on the Public Comment sign-up sheet located inside Council Chambers at least 15 minutes prior to the meeting start time. Registration will end at the conclusion of the Public Comment period during the meeting. Speakers must be registered in order to be recognized by the Chair.

Submit written comments to Councilmember Nelson at [sara.nelson@seattle.gov](mailto:sara.nelson@seattle.gov)

*Please Note: Times listed are estimated*

**A. Call To Order**

**B. Approval of the Agenda**

**C. Public Comment**

**D. Items of Business**

1. [CB 120556](#) **AN ORDINANCE relating to the City Light Department; authorizing the transfer of certain funds in the Light Fund into the Rate Stabilization Account in 2023; and superseding certain provisions of subsection 21.49.086.E of the Seattle Municipal Code.**

*Supporting Documents:*

[Summary and Fiscal Note](#)

[Central Staff Memo](#)

[Presentation](#)

**Briefing, Discussion, and Possible Vote** (20 minutes)

**Presenters:** Debra Smith, General Manager and CEO, Kirsty Grainger, Emeka Anyanwu, and Carsten Croff, Seattle City Light; Eric McConaghy, Council Central Staff

**E. Adjournment**



Legislation Text

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**File #: CB 120556, Version: 1**

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**CITY OF SEATTLE**

**ORDINANCE \_\_\_\_\_**

**COUNCIL BILL \_\_\_\_\_**

AN ORDINANCE relating to the City Light Department; authorizing the transfer of certain funds in the Light Fund into the Rate Stabilization Account in 2023; and superseding certain provisions of subsection 21.49.086.E of the Seattle Municipal Code.

WHEREAS, pursuant to Seattle Municipal Code Section 21.49.086, the City established the Rate Stabilization Account (RSA) within the Light Fund to protect the City Light Department (“City Light”) and its customers from deviations in revenues from surplus electricity sales, also called net wholesale revenue, compared to amounts assumed in budgets; and

WHEREAS, over its past 12 years in operation, the RSA has proven to be a useful and effective mechanism for shielding customer rates from financial risks brought on by uncontrollable external factors like temperatures, rainfall, and wholesale market conditions; and

WHEREAS, since November 2022 the RSA balance has declined rapidly and at the end of March was \$45.8 million, which triggers a four percent rate surcharge effective June 1, 2023 per the RSA operating rules codified in Seattle Municipal Code Section 21.49.086; and

WHEREAS, excellent financial performance in 2022 has left City Light with a surplus of operating cash; and

WHEREAS, City Light’s strong financial outlook for 2023 may allow the utility to both forestall a rate surcharge via an RSA deposit while still maintaining a high likelihood of exceeding debt service coverage targets; NOW, THEREFORE,

**BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:**

Section 1. The City Light Department is authorized to transfer 2023 cash available in the Light Fund for

debt service coverage in excess of 1.85 times debt service for 2023 into the Rate Stabilization Account so long as its balance does not exceed \$100 million. Multiple transfers may be made during 2023. Notwithstanding the RSA replenishment requirements of Seattle Municipal Code subsection 21.49.086.E, no RSA surcharge will be imposed on June 1, 2023.

Section 2. This ordinance shall take effect and be in force 30 days after its approval by the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.

Passed by the City Council the \_\_\_\_\_ day of \_\_\_\_\_, 2023, and signed by me in open session in authentication of its passage this \_\_\_\_\_ day of \_\_\_\_\_, 2023.

\_\_\_\_\_  
President \_\_\_\_\_ of the City Council

Approved / returned unsigned / vetoed this \_\_\_\_\_ day of \_\_\_\_\_, 2023.

\_\_\_\_\_  
Bruce A. Harrell, Mayor

Filed by me this \_\_\_\_\_ day of \_\_\_\_\_, 2023.

\_\_\_\_\_  
Elizabeth M. Adkisson, Interim City Clerk

(Seal)

**SUMMARY and FISCAL NOTE\***

<b>Department:</b>	<b>Dept. Contact:</b>	<b>CBO Contact:</b>
City Light	Kirsty Grainger	Greg Shiring

*\* Note that the Summary and Fiscal Note describes the version of the bill or resolution as introduced; final legislation including amendments may not be fully described.*

**1. BILL SUMMARY**

**Legislation Title:** AN ORDINANCE relating to the City Light Department; authorizing the transfer of certain funds in the Light Fund into the Rate Stabilization Account in 2023; and superseding certain provisions of subsection 21.49.086.E of the Seattle Municipal Code.

**Summary and Background of the Legislation:**

Seattle City Light (SCL) buys and sells energy on the wholesale market. Because City Light typically has more electricity than needed to meet retail demand, the sum of these sales and purchases is referred to as net wholesale revenue (NWR). The Rate Stabilization Account (RSA) is a cash reserve that buffers NWR, insulating the utility and its retail customers from wholesale power market volatility. When NWR comes in below planned levels, funds are transferred from the RSA into City Light’s operating account. Under the current RSA rules adopted in December 2021, if the RSA balance is below \$75 million at the end of Q1 or Q3, a 2% surcharge is placed on all retail sales and associated revenue is deposited into the RSA. The surcharge is lifted when the RSA balance returns to its target level of \$100 million. The surcharge increases to 4% if the RSA balance is below \$50 million at the end of Q1 or Q3.

The RSA is a restricted reserve, and its rules of operation are codified in SMC 21.49.086. Any deposits or withdrawals not determined by the operational rules in the SMC require explicit Council approval.

In November 2022 the RSA balance was over \$100 million but has since rapidly declined, resulting in a \$45.8 million ending balance in March 2023. With no action, this will trigger a 4% RSA surcharge on customer rates starting June 1, 2023. Contributing factors to the RSA depletion include high winter demand for electricity due to cold temperatures, poor snow and precipitation reducing hydroelectric generation volumes, and sustained high wholesale energy market prices.

While the RSA is designed to be an automatic mechanism, City Light’s current strong financial position allows for a discretionary transfer(s) into the RSA to reduce or avoid surcharges. City Light had excellent operating performance in 2022 resulting in 2.5x debt service coverage and \$140 million higher than planned operating cash balance. The outlook for 2023 is also expected to be strong at around 2.0x debt service coverage.

Strong retail performance correlates with poor wholesale performance; higher retail load reduces the amount of surplus electricity available for wholesale sales and/or increases purchases. In 2022 retail revenue was over \$50 million higher than planned and in 2023 current expectations are that retail revenue will be over \$20 million higher than planned.

With the utility’s strong financial position, imposing a rate surcharge on customers seems unwarranted.

This legislation authorizes City Light to transfer surplus operating funds into the RSA. Immediately after the adoption of this legislation, City Light would make an initial \$30 million transfer which, when applied retrospectively, would increase the effective March RSA balance to over the \$75 million surcharge threshold and prevent the 4.0% surcharge from being implemented on June 1, 2023.

The ordinance would allow another transfer, should the RSA balance continue to drop as the year unfolds. If, at the end of September, the RSA balance dips below a surcharge trigger, City Light will evaluate its financial position to determine if another RSA transfer is financially feasible. Given the uncertainty of the remainder of the year even with the transfer(s) it is still possible for a surcharge to trigger in September and start January 1, 2024. Restricting the transfer amounts to only surplus revenues above 1.85 debt service coverage allows some buffer so City Light has a strong likelihood of meeting its target of having debt service coverage greater than 1.80x.

There is historical precedence for discretionary cash transfers to avoid unneeded RSA surcharges. In the past under similar circumstances, City Light made discretionary transfers of surplus operating funds into the RSA to replenish the reserve and forestall a surcharge in 2012, 2013 and 2021.

## 2. CAPITAL IMPROVEMENT PROGRAM

Does this legislation create, fund, or amend a CIP Project?      \_\_\_ Yes   x   No

## 3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation amend the Adopted Budget?      \_\_\_ Yes   x   No

**Does the legislation have other financial impacts to The City of Seattle that are not reflected in the above, including direct or indirect, short-term or long-term costs?**

Implementing the legislation and transferring funds into the RSA will have the impact of incrementally increasing the amount of debt issued by the utility in 2023 and 2024, all else being equal. However, even with the proposed transfer, the projected debt issue will still be lower than outlined in City Light’s 2023-2028 Strategic Plan.

**Are there financial costs or other impacts of *not* implementing the legislation?**

Not implementing the legislation would result in rates for City Light customers increasing by 4% in June 2023. The surcharge would be lifted when the RSA balance rises back to \$100 million.

#### 4. OTHER IMPLICATIONS

- a. **Does this legislation affect any departments besides the originating department?**  
No
- b. **Is a public hearing required for this legislation?**  
No
- c. **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?**  
No
- d. **Does this legislation affect a piece of property?**  
No
- e. **Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities? What is the Language Access plan for any communications to the public?**  
N/A
- f. **Climate Change Implications**
- 1. Emissions: Is this legislation likely to increase or decrease carbon emissions in a material way?**  
No.
  - 2. Resiliency: Will the action(s) proposed by this legislation increase or decrease Seattle's resiliency (or ability to adapt) to climate change in a material way? If so, explain. If it is likely to decrease resiliency in a material way, describe what will or could be done to mitigate the effects.**  
No.
- g. **If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s)?** NA



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

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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
<b>2022</b>	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
<b>2023</b>	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	<a href="#">123757</a>
2012	22.0	<a href="#">124059</a>
2013	21.0	<a href="#">124426</a>
2021	15.0	<a href="#">126502</a>

*\$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

# City Light Rate Stabilization Account (RSA) Transfer Ordinance

Economic Development, Technology & City Light Committee

April 26, 2023



WE POWER SEATTLE

## Purpose of RSA Transfer Legislation

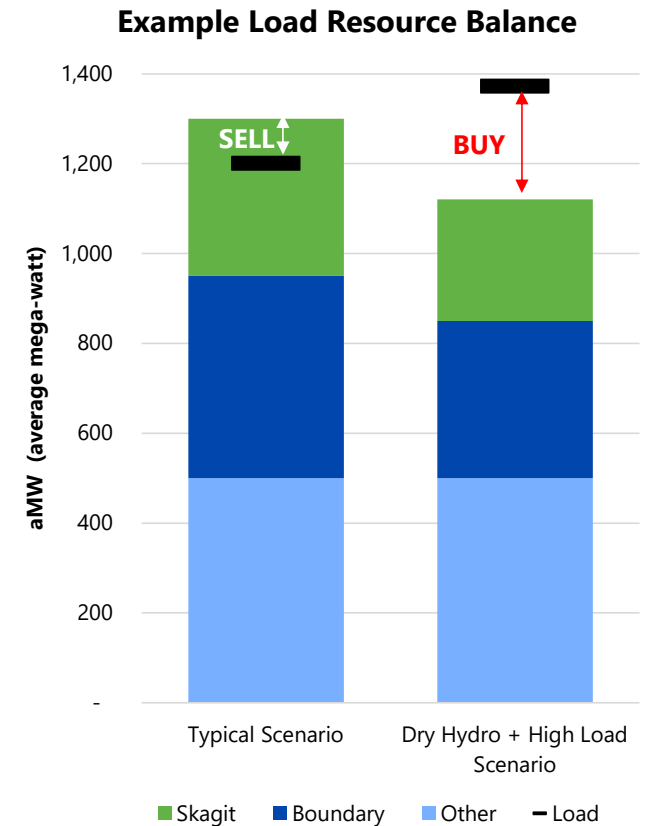
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**Situation:** Per RSA rules, an automatic 4% electricity rate surcharge will go into effect June 1, 2023, without Council action

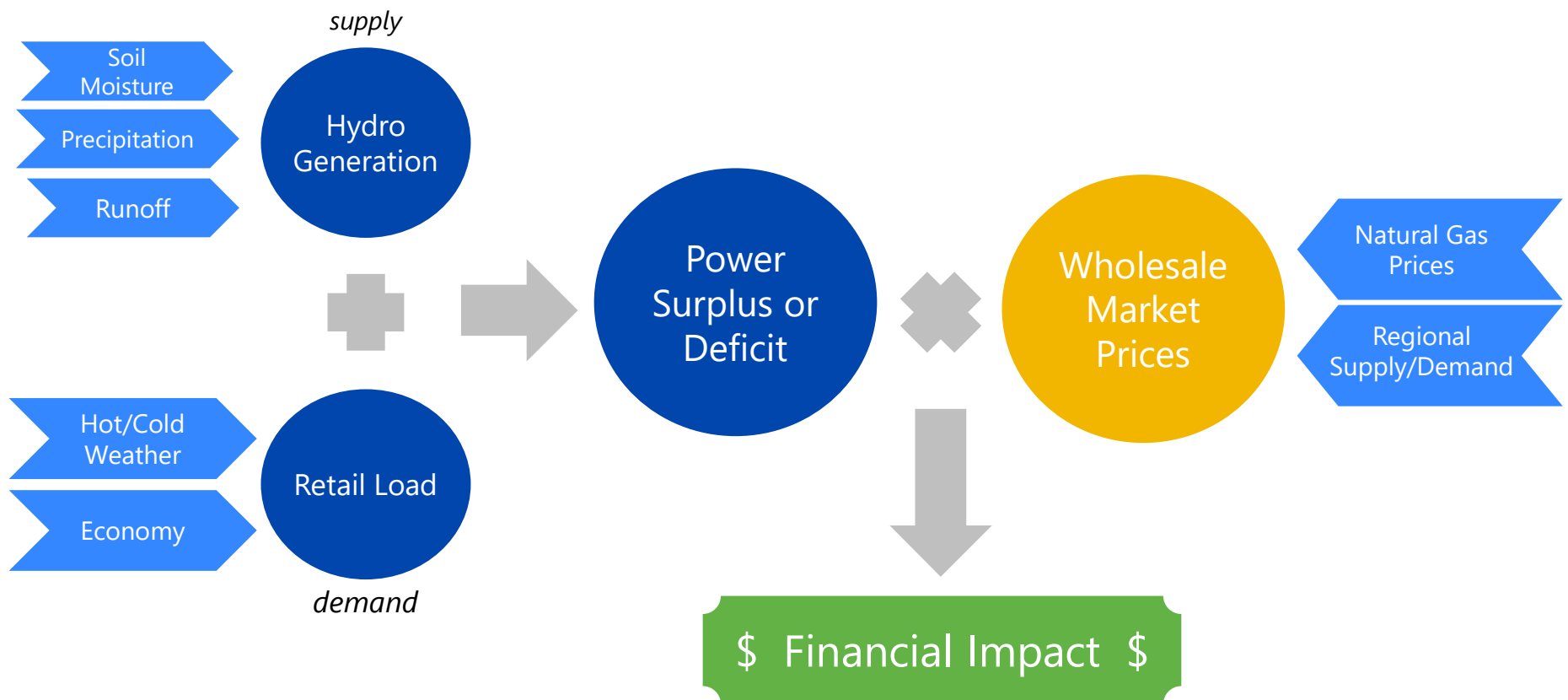
**Legislation:** Ordinance authorizes transfer of surplus operating cash into the RSA to forestall surcharge

# 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

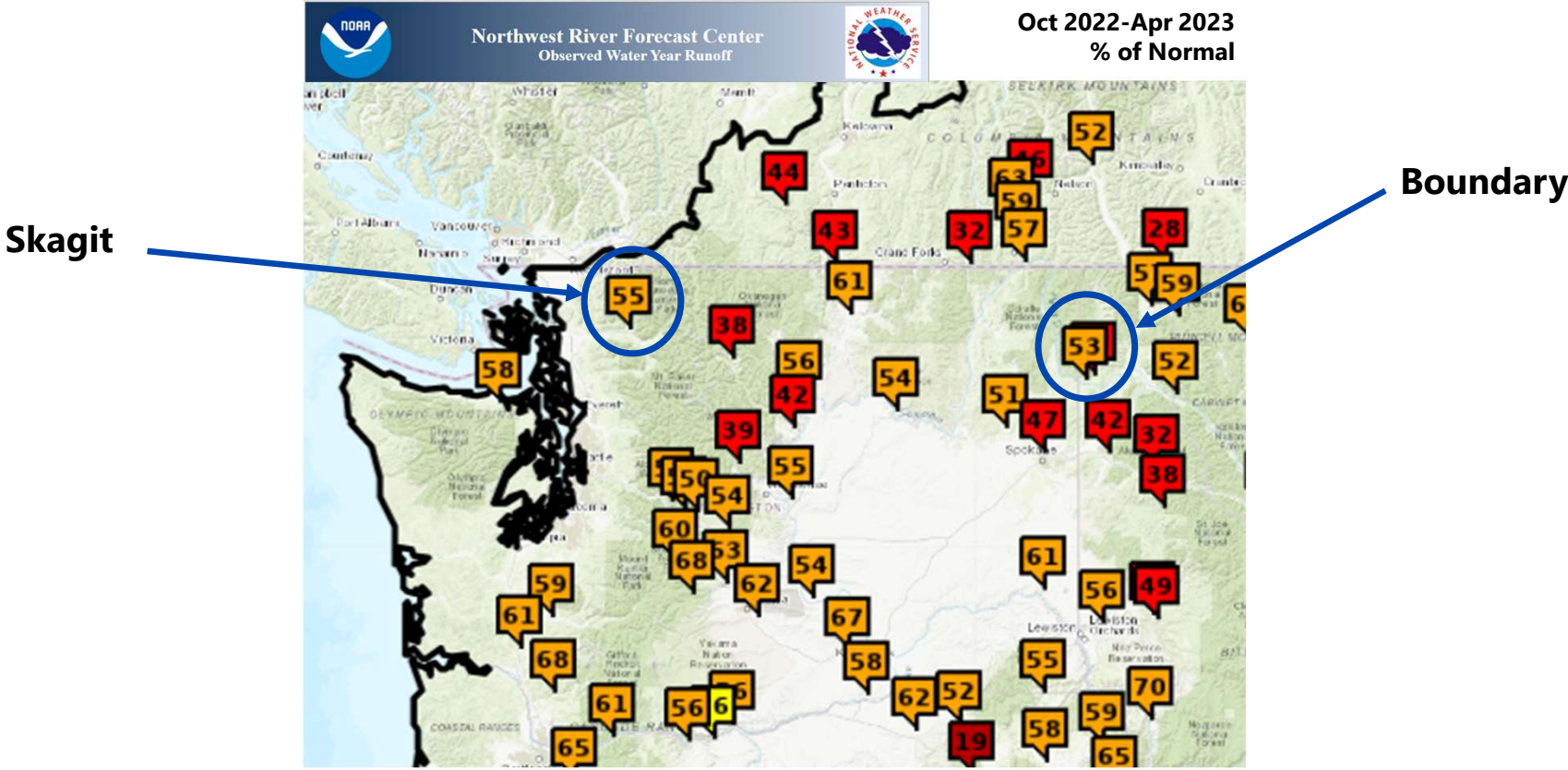


# Winter 2022-2023 Recap

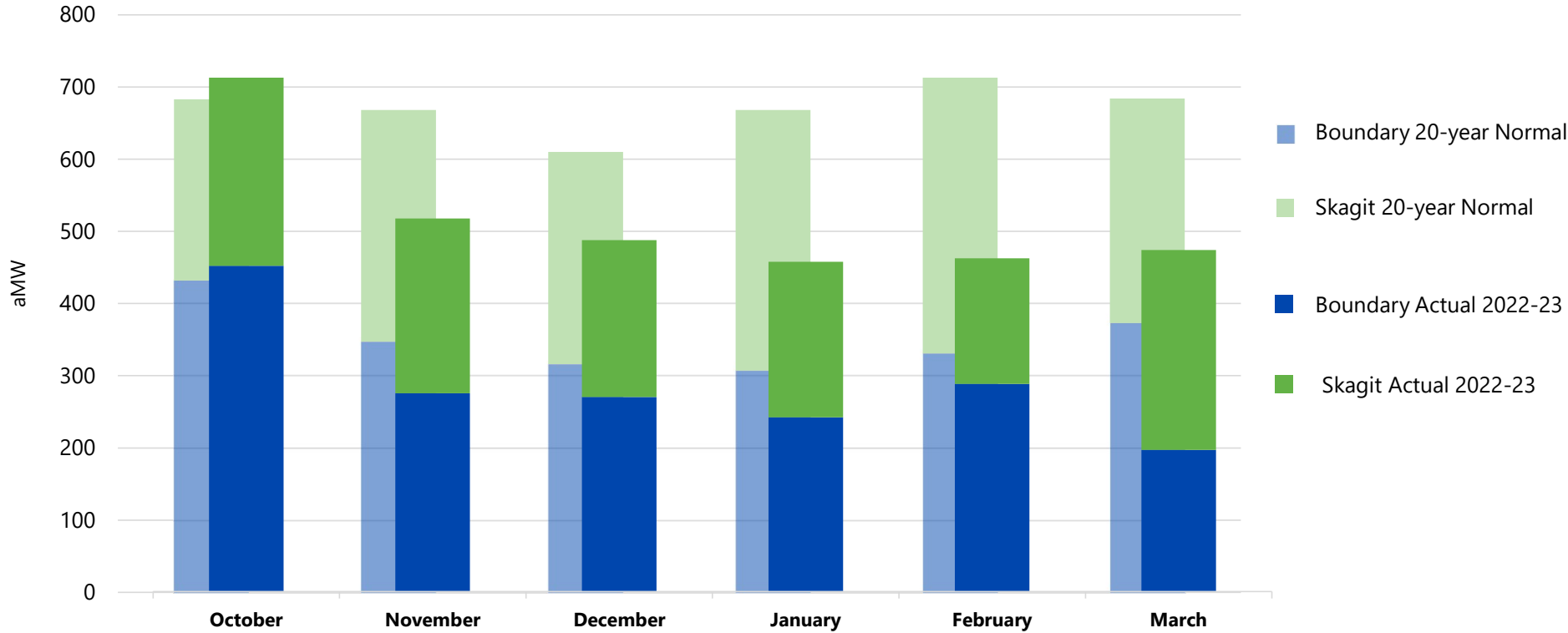




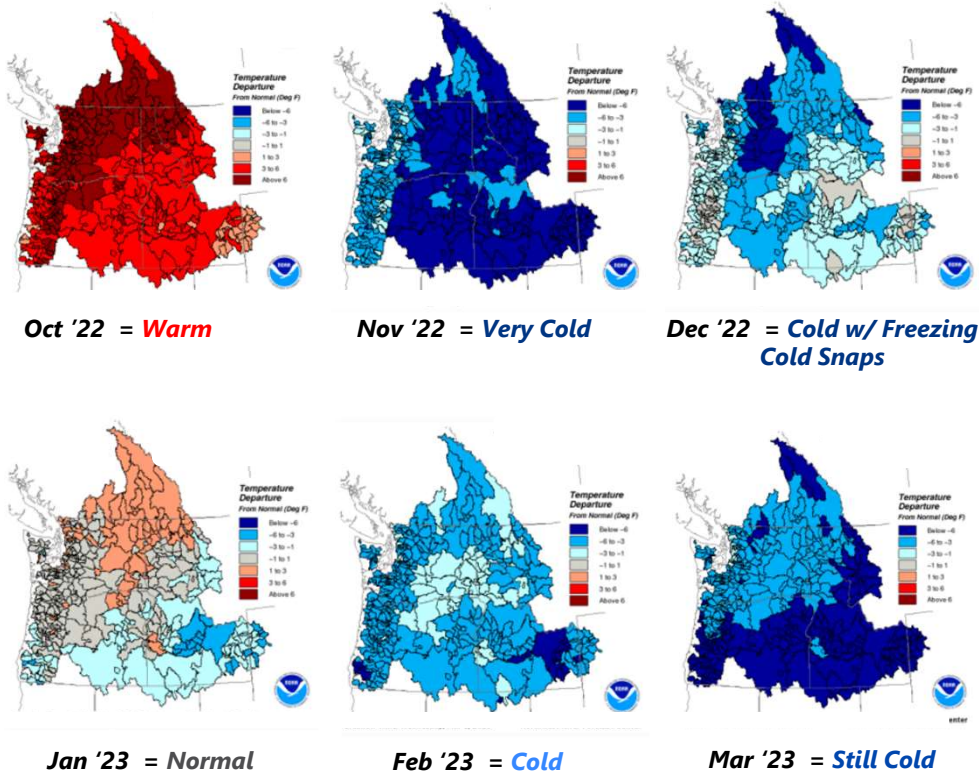
# Dry Winter Hydro Conditions



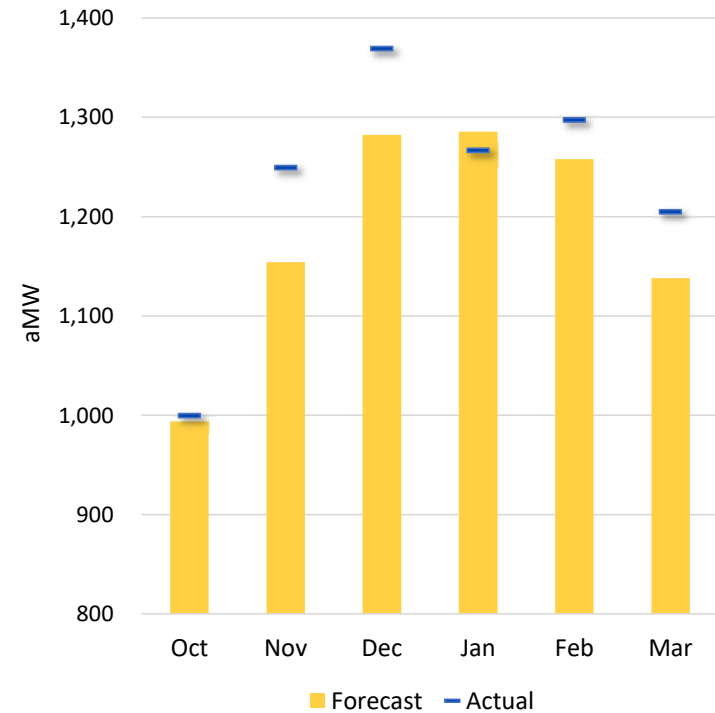
# Below Normal Winter Hydro Generation



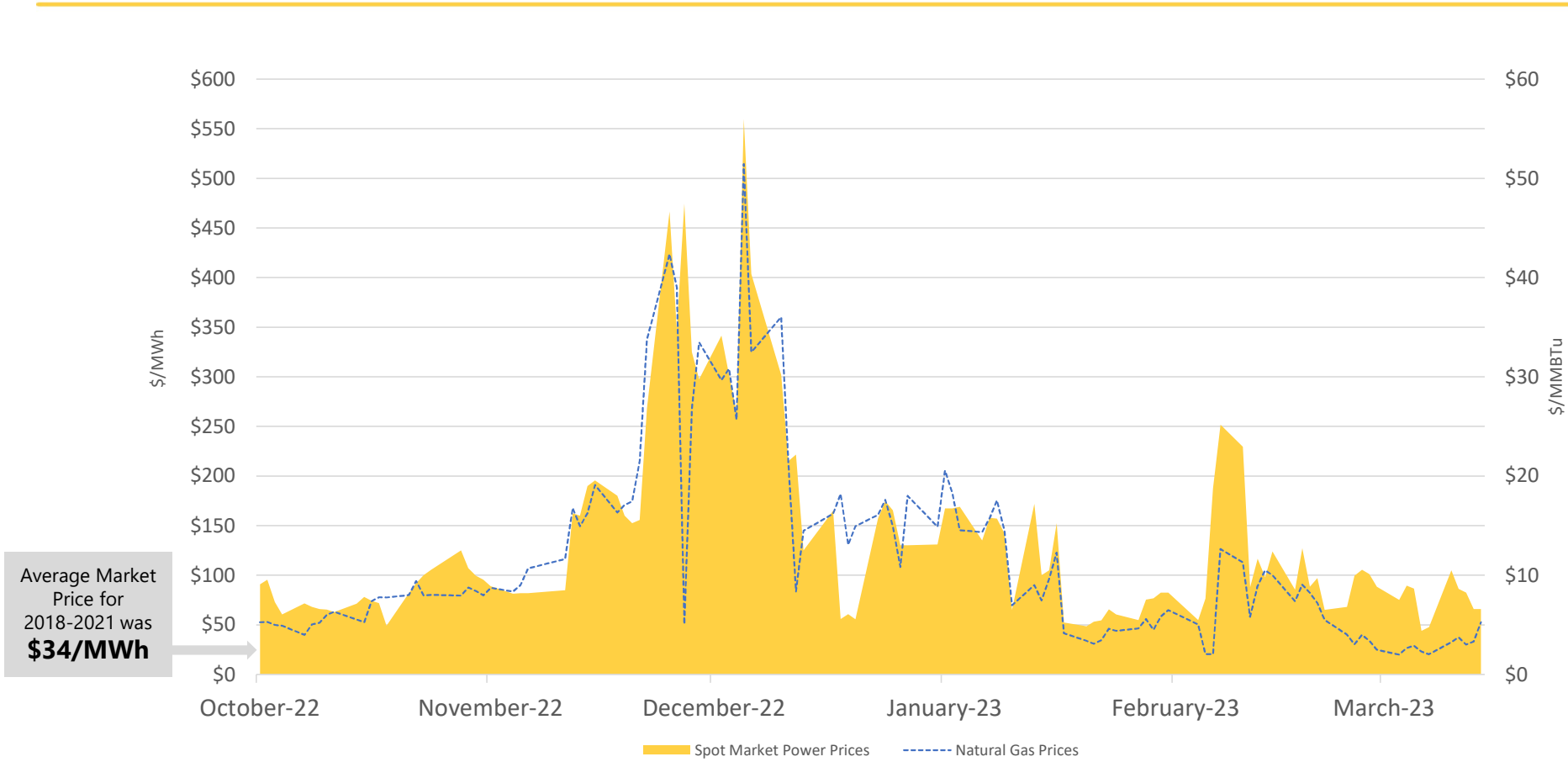
# Cold Winter Temperatures Drove Up Demand for Electricity



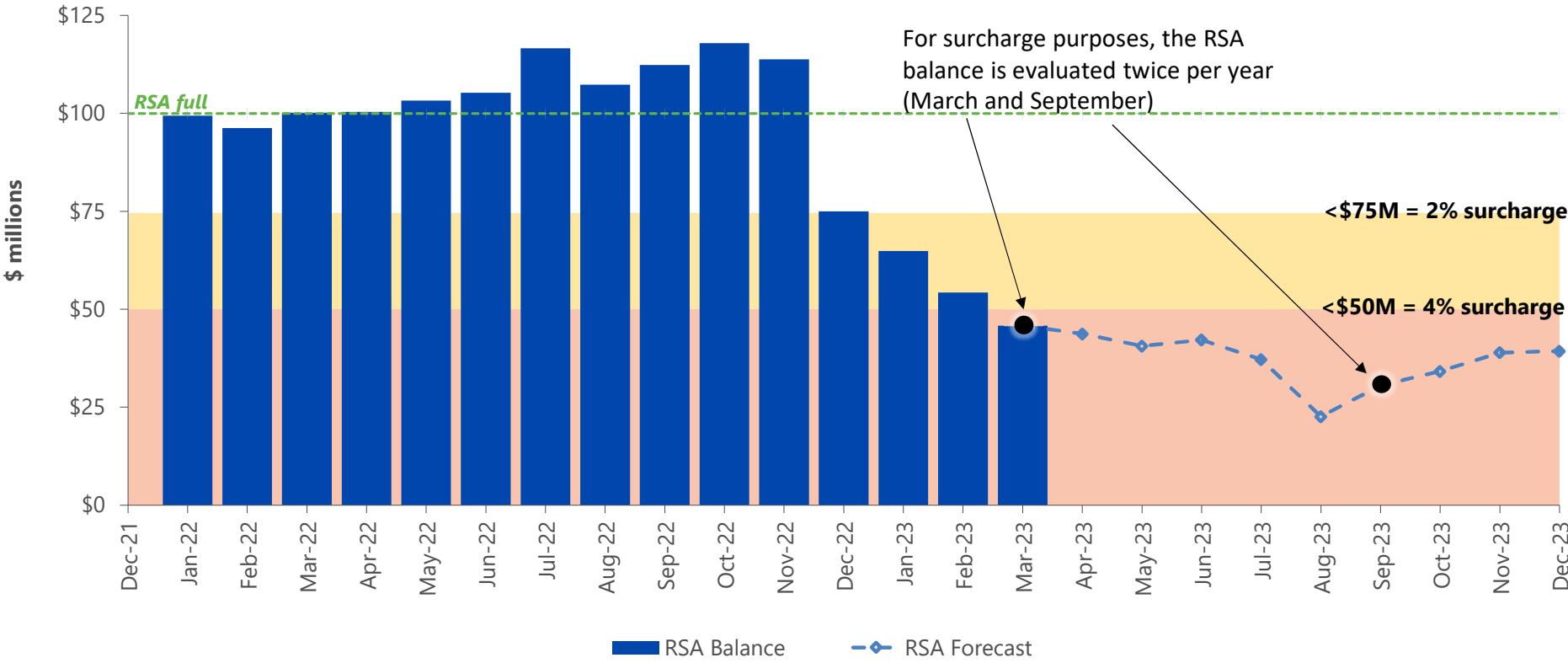
**CITY LIGHT RETAIL DEMAND (LOAD)**



# High Market Prices



# RSA Status & Outlook\*



\*As of March 31, 2023

# RSA Transfer Background

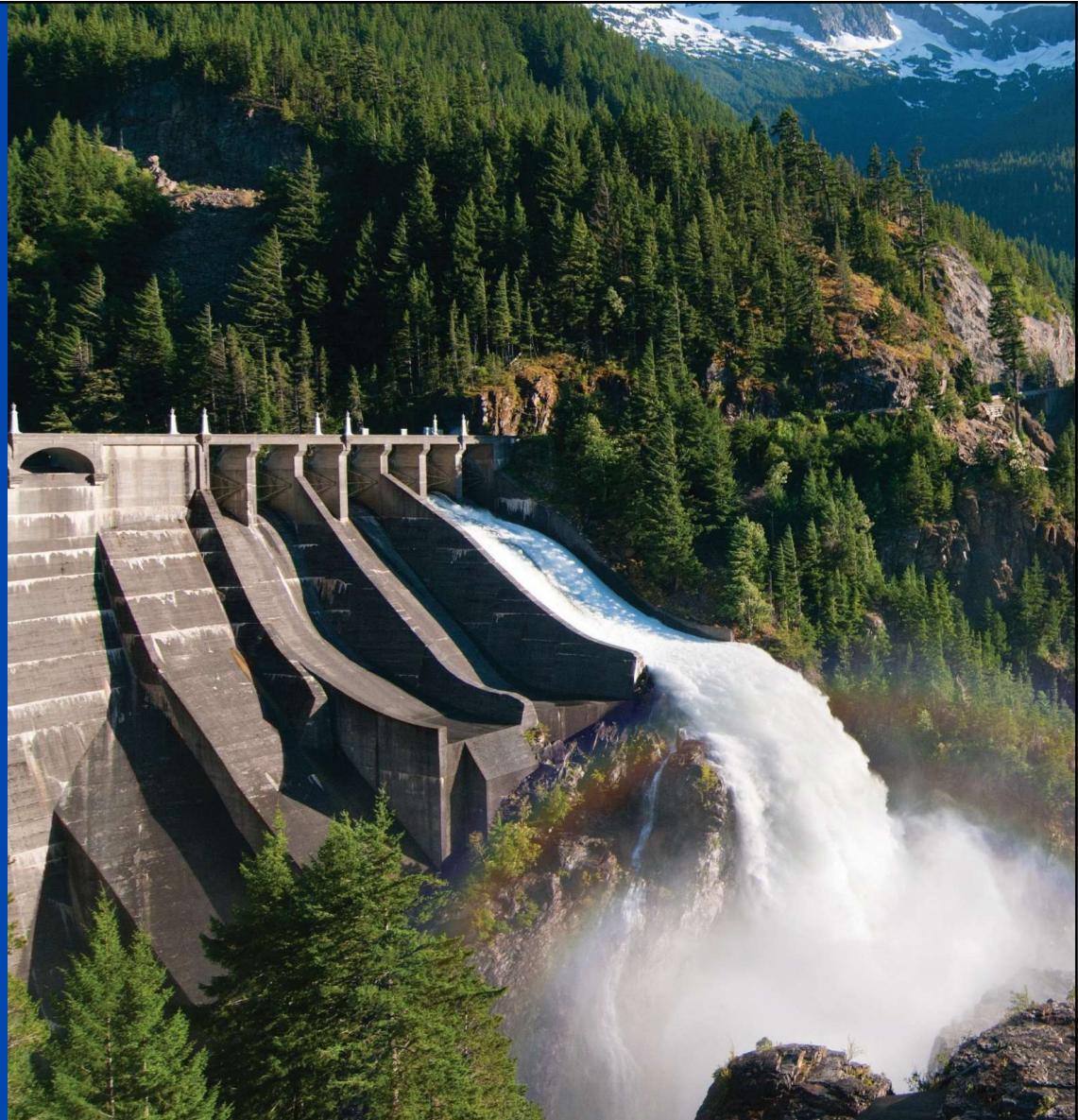
- Justification
  - Strong liquidity: \$356 million operating cash
  - Excellent financial performance in 2022, positive outlook for 2023
  - Historical precedent, transfers also made in 2011, 2012, 2013 and 2021
- Risks
  - Cash transfer to RSA will incrementally weaken financial results\*
  - Potential 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

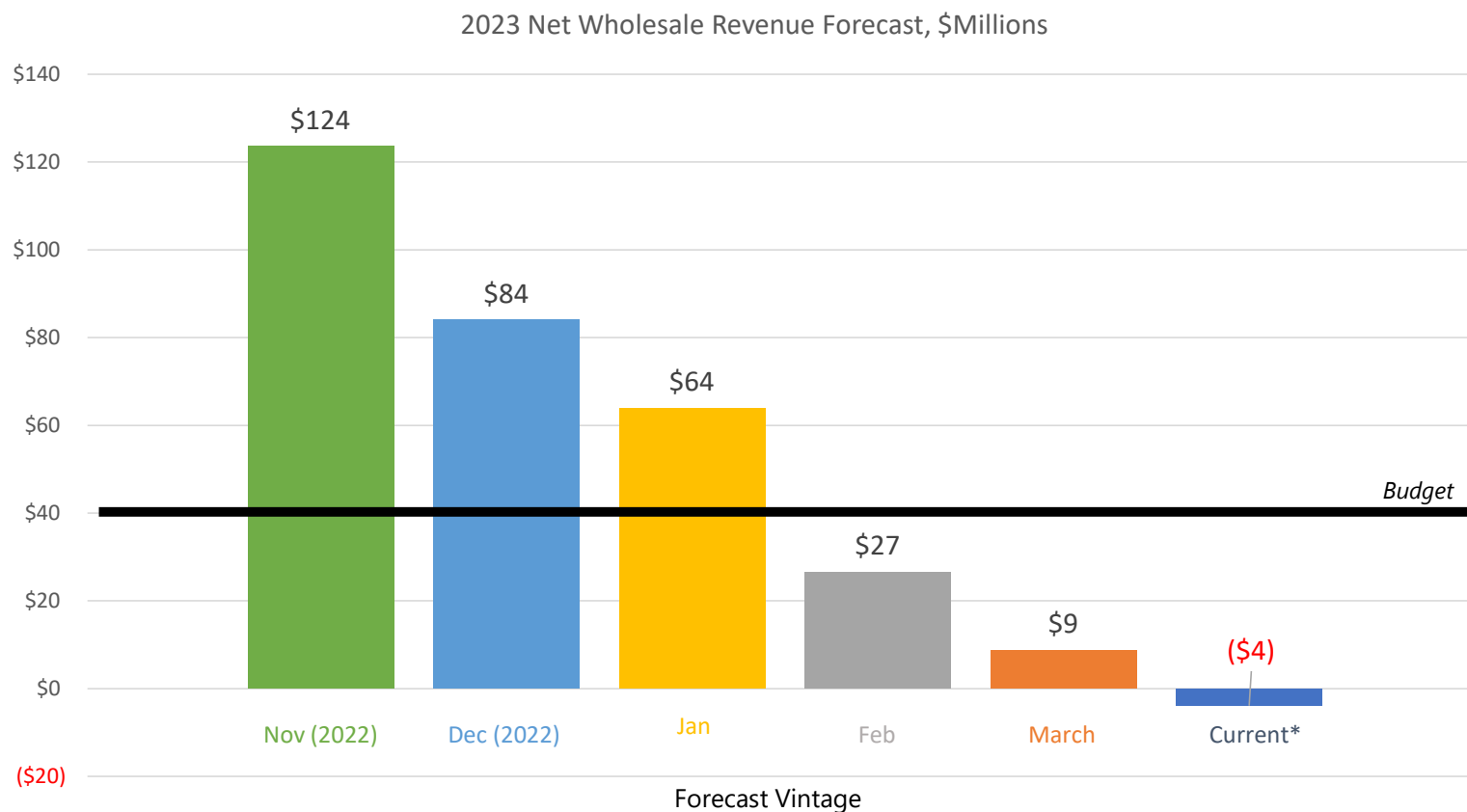
\* Transfer will behave like a new expense, reducing 2023 financial results (debt service coverage, etc.) and incrementally impacting leverage/rates

\*\*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

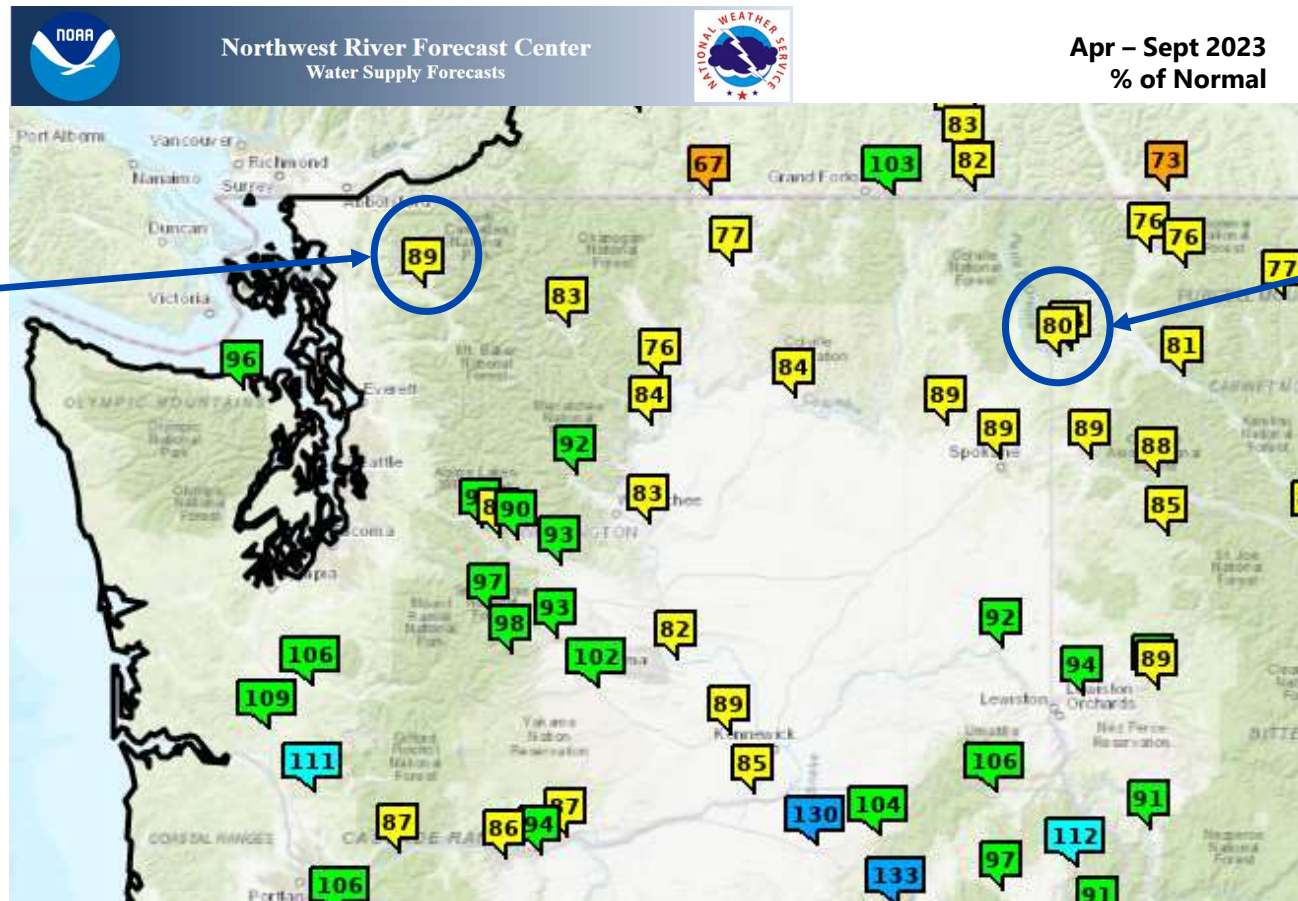


Apr 14, 2023 Forecast

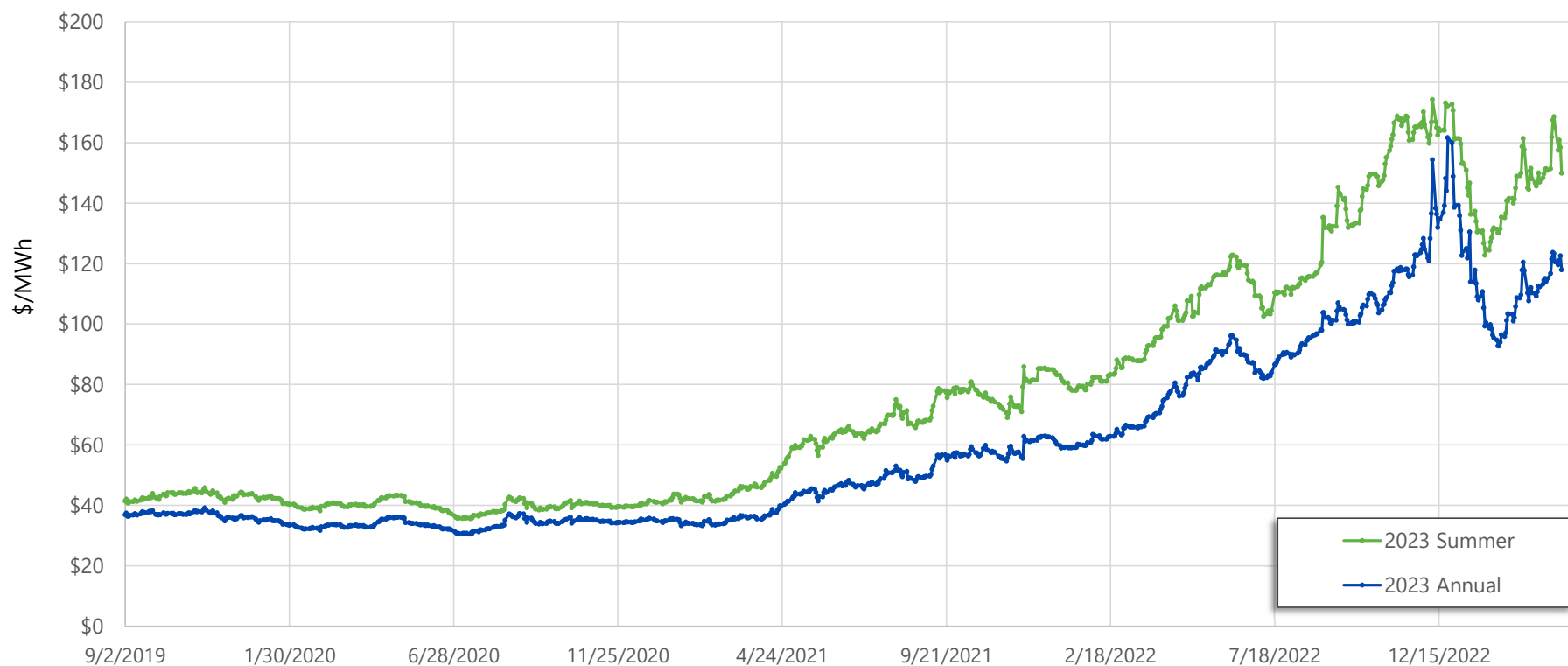
13



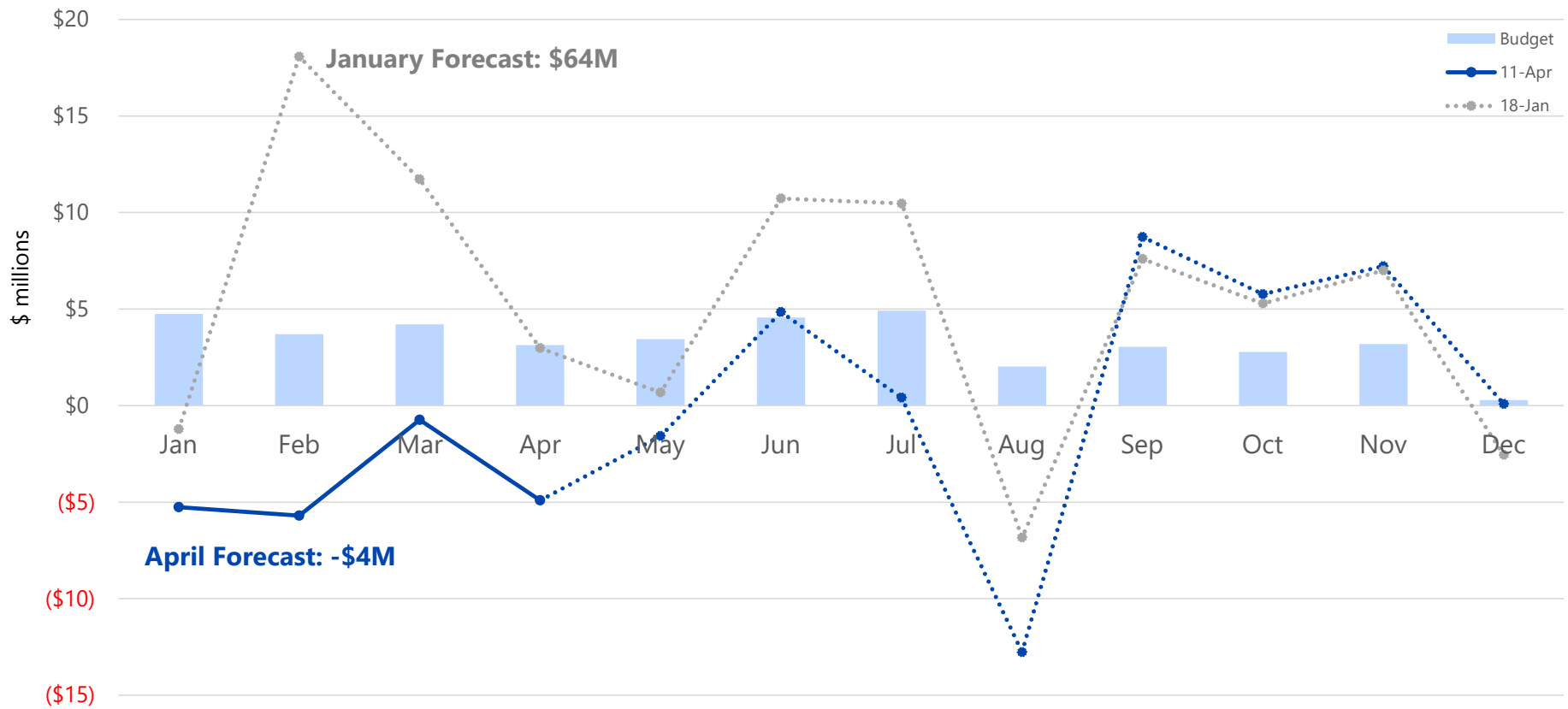
# Spring/Summer Hydro Runoff Forecast



# Wholesale Market Prices for 2023 are High



# 2023 Net Wholesale Revenue Outlook



# Recommended Next Steps

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- 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

*WEIM = Western Energy Imbalance Market, WRAP = Western Resource Adequacy Program*

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# POWER SEATTLE



**Seattle City Light**