

September 13, 2021

MEMORANDUM

To: Transportation and Utilities Committee
From: Eric McConaghy, Analyst
Subject: Council Bill 120160 – Seattle City Light’s Renewable Plus Program

On September 15, the Transportation and Utilities Committee (Committee) will discuss and potentially vote on a recommendation on [Council Bill \(CB\) 120160](#) which would add a new section to [Seattle Municipal Code \(SMC\) Chapter 21.49](#) and amend SMC 21.49.130.B to establish the Seattle City Light (City Light) Renewable Plus Program (RP). City Light proposes RP as a new program for the acquisition and sale of renewable energy.

Through RP, City Light would purchase energy generated from newly developed wind or solar generators and sell the energy to high-demand customers that wish to purchase energy from renewable sources. RP would be open to customers demonstrating a minimum aggregated annual consumption of 10,000 megawatt hours (MWhs). For perspective, [Climate Pledge Arena](#) is an identified, potential RP customer meeting the annual consumption threshold and having aggressive sustainability goals.

RP customers would purchase the renewable energy bundled with renewable energy certificates (RECs) – the “plus” in Renewable Plus. A”REC ...represents the property rights to the environmental, social and other non-power attributes of renewable electricity generation. RECs are issued when one megawatt-hour (MWh) of electricity is generated and delivered to the electricity grid from a renewable energy resource.”¹

Electricity generated from renewable sources is indistinguishable in its physical properties from electricity produced from other sources. RECs are a means to account for renewable energy that potential RP customers could use to demonstrate compliance with environmental standards, such as the [International Living Future Institute’s Zero Carbon Certification](#).

Based on analysis of the proposed legislation and engagement with City Light staff who would be responsible for implementing RP, Central Staff has identified two primary considerations for the Committee regarding a vote on CB 120160:

1. If approved, the legislation would authorize City Light to sign contracts with RP energy customers and renewable energy developers not to exceed 20 years – a four-fold increase of City Light’s existing, codified authority of five years; and

¹ United States Environmental Protection Agency, <https://www.epa.gov/greenpower/renewable-energy-certificates-recs>.

- City Light’s sales to RP customers would happen only after the establishment of the RP rate in SMC 21.49 by a future ordinance. This would add a new element to Council’s next deliberation and vote on City Light rates, expected next summer.

Background

On August 18, 2021, the Committee received a briefing from City Light staff on Council Bill (CB) 120160. City Light shared a timeline chart (see *Figure 1*, below) as part of the briefing. City Light has been working on the program design, outreach to potential customers, and a request for proposals (RFP) from potential energy developers over the past two years. The timeline shows work to date and the utility’s intention for next steps if CB 120160 passes.

Figure 1: City Light’s Renewable Plus Timeline

Program Development Activities	2020	2021				2022	2023	2024
	Q4	Q1	Q2	Q3	Q4			
Renewable resource RFP Release								
Program and rate design								
RFP evaluation and selection								
Council - Renewable Plus ORD briefing (8/18)								
Council action - Renewable Plus ORD T&U vote (9/15)								
Council action - Renewable Plus ORD Council vote (9/20)								
Contracting for resource								
Customer program enrollment								
Renewable resource construction (estimate)*								
Council action - Establish Renewable Plus program rate								
Renewable resource operational (estimate)*								
Begin resource delivery (estimate)*								

* - Resource construction/online timeline and program launch contingent on specifics of resource selected

City Light reports that its RP program team reached out to all identified eligible customers and has had detailed conversations with those who expressed interest – about 10 to 12 potential customers. Those discussions included customers in retail, e-commerce, healthcare, public agencies, and manufacturing.

City Light has also conducted a request for proposals (RFP) process for potential suppliers of new, renewable energy with corresponding RECs for RP. This process is ongoing. See below for a discussion of the RFP.

During the discussion that followed the briefing on August 18, Chair Pedersen communicated his perspective that any financial risks and liability for the City resulting from the establishment of RP should be well understood before a vote on CB 120160. And he shared his expectation that RP participants would bear the risks of developing capital projects to support RP. Debra Smith, City Light General Manager, replied during the meeting that City Light has designed RP

to have customers pay the costs of the program without shifting costs to any rate payers who are not RP customers.

This memorandum provides Central Staff commentary on the proposal. See Attachment 1 for the summary of the questions and answers between Central Staff and City Light staff.

Commentary

Council's decision on CB 120160 involves extending trust in City Light's execution of contracts for a particular energy product without individual Council approval from a period of up to five years to 20 years. While this extension is significant, this proposal does not introduce a new kind of authority for City Light as the existing SMC authorizes City Light to engage in a wide range of contracting for energy.

Central Staff observes that City Light intends to rely on the terms of contracts and criteria for securing contracts to manage identified risks of RP rather than on regulatory provisions in the SMC. This characterizes City Light's proposed risk management for RP.

City Light has already begun the process to select power developers to supply renewable energy and RECs for sale via the proposed RP. Approving CB 120160 as transmitted would effectively endorse the process to date by allowing City Light to sign contracts with one or more of the shortlisted power developers unless City Light determines that none of the shortlisted are suitable. Council could pass CB 120160 and request reporting from City Light on the progress toward selecting from the shortlist.

City Light shared with Council the projected need for additional energy resource in 2026 as part of the presentation of City Light's 2020 IRP Progress Report in February 2021. The City approved the 2020 IRP Progress Report via [Resolution 31986](#). City Light states that the prospective RP energy resource could benefit RP program participants and non-participating rate payers by contributing to resource adequacy and offsetting the need to purchase additional resources.

If CB 120160 passes, then Council's next opportunity to check City Light's progress toward an acceptable, future RP rate proposal would most likely be during the consideration of City Light's IRP in summer of 2022. At this time, City Light should be able to demonstrate in the IRP that the costs of RP power would be borne by customers for RP power and not shifted to City Light customers in general.

Council's review of the 2022 IRP will matter, not only as a preview of a future RP rate (likely in 2026) but also because the 2022 IRP will inform City Light's proposal of the 2023-2028 Strategic Plan and rate path for all customers and the expected rate proposal to follow next year. Central Staff recommends that Council engage with City Light to ensure sufficient time is provided for Council's consideration of the 2022 IRP, regardless of the decision on CB 120160.

Next Steps

If the Committee votes to recommend approval of CB 120160 on September 15, 2021, then Council could consider and take final action on the legislation as soon as September 20, 2021.

Attachments:

1. Q & A on City Light's Renewable Plus Proposal – CB 120160

cc: Esther Handy, Director
Dan Eder, Deputy Director
Aly Pennucci, Policy and Budget Manager

Questions and Answers

Question 1: What risks due to RP have been identified and how would City Light manage the risks?

Answer 1: In response, City Light staff identified two areas of risk: (1) shifting of RP costs to non-participating customers and (2) difficulty in achieving equity and environmental outcomes.

To manage the risks of cost-shifting, City Light replied that the utility would seek to purchase new, renewable energy in an amount sized to meet the expected, RP customer demand. City Light would base this purchase amount on customer outreach. City Light would sign power purchase agreements (PPA) for new, renewable energy from energy developers only after RP customers have signed long-term, customer commitment contracts to purchase RP energy from City Light.

City Light has designed RP so that the energy developer(s) would own, operate, and maintain the renewable resource and City Light would purchase the energy and RECs via a power purchase agreement (PPA). Under this model, City Light states that there would be no capital investment from City Light for the construction of the resource. City Light would commit for the long-term for the purchase of the generation and RECs via the PPA. The energy developer(s) would finance the project construction. City Light is only considering energy developers that have a record of financing the development of projects of the scale required to suit RP.

CB 120160 would not establish a rate for RP energy sales. City Light could not begin charging for RP energy until the Council and Mayor approve the addition of a RP rate to the SMC by ordinance. City Light would propose a rate for RP customers based on integrated resource plan (IRP) analysis to model and estimate all incremental program costs. City Light expects to transmit an updated IRP to Council for review and possible adoption in August 2022. City Light discussed IRP analysis and rate setting in the response to Question 4.

City Light would include clauses in customer commitment contracts requiring RP customers to make expected payments even if they decide to terminate contracts early. And City Light would include in RP contracts the ability to periodically adjust the RP rate based on best information available to capture all estimated incremental program costs.

To manage the risks of not achieving desired equity and environmental outcomes, City Light identified signing contracts with developers for new, renewable energy as the greatest leverage points.

In 2020, City Light released an RFP for the generation of new renewable energy sources for RP. City Light evaluated developer responses on:

- Workforce development and engagement with the community;
- Project siting on developed land (as opposed to “green field” development);
- Equipment design and selection minimizing local environmental impact; and

- Equipment sourcing from producers that prioritize minimizing environmental impact in manufacturing

Question 2: What relative weight would City Light give to considerations of equity, environment, community benefit, and new, green jobs in the choice among potential power developers for RP?

Answer 2: For the RFP, City Light grouped the evaluation criteria into the following categories:

- renewable development;
- related project experience;
- workforce development;
- design/technical execution;
- management approach;
- cost & pricing; and
- capacity management.

Criteria in multiple categories touched on elements of equity, environment, community benefit and green jobs. City Light used pass/fail testing or point scoring for the criteria within the above categories. Of the criteria that City Light scored, about 16% of the total score (18 of 116 possible points) directly addressed those elements, and another about 13% (15 of 116 possible points) related to criteria impacting touching on those elements (for example, project experience). City Light staff are currently assessing a shortlist of projects that passed the evaluation process described above. The final criteria to evaluate the shortlist is not complete.

City Light also replied that job creation in the Pacific Northwest would be considered in the final selection of energy developer(s). At this point, the shortlisted resources are all located in Eastern Washington, Oregon, and Montana, so job creation in construction, operations, and maintenance would occur in those communities. Many RFP responses have highlighted estimated job creation and potential impact to those communities, many of which are rural with unemployment rates higher than the state average.

Question 3: What similarities and differences would RP contracts have with City Light’s contracts for power purchases and sale made under existing authority?

Answer 3: City Light replied that existing authority allows the utility to enter power purchase agreements (PPAs) of up to five years. CB 120160 would allow agreements of up to 20 years. Otherwise, City Light described the process seeking RP energy resources as very similar to any other, new resource acquisition process for City Light. The main difference with RP is that City Light would identify customer demand for the specific energy product offered under the proposed RP program rather than a general identification of future energy need.

For customer contracting, City Light replied that the utility has existing authority to contract with customers participating in established programs for five years and said that the primary difference for RP customer contracts would be contract duration. Approval of CB 120160 would

allow City Light to sign contracts with participating customers for up to 20 years. Functionally, City Light would employ purchase agreements as it does with other customer-facing programs, such as the existing, energy conservation programs.

Question 4: How would City Light calculate a rate for the RP energy product that does not increase the rates paid by customers not purchasing the Renewable Plus product?

Answer 4: City Light contends that the prospective RP energy resource could benefit RP program participants and non-participating rate payers by contributing to resource adequacy and offsetting the need to purchase additional resources.

City Light would design the RP rate to recover all incremental costs above what City Light would spend in the absence of the program. Since City Light has determined that it could purchase a similar resource in 2026, the utility categorizes these costs three ways: (1) the cost of procuring the resource earlier than City Light would on behalf of all rate payers; (2) regulatory compliance costs; and (3) the costs of developing and administering the program. City Light plans to propose an RP rate that would account for all these incremental costs and ensure program participants pay for them.

In terms of the structuring of the RP rate, City Light plans to set a single, flat rate for the first rate period. The duration of the first rate period has not been determined exactly but would last between four to six years. By charging a flat, multi-year rate for RP, City Light would expect to collect revenue less than costs in the first two years, when costs for the program are at its highest, and to collect revenue more than costs during the remaining years of the first rate period. City Light intends for this to result in no increased cost due to RP on non-participating rate payers.

Question 5: When will City Light next bring an Integrated Resource Plan (IRP) to Council for approval by resolution and how would the IRP incorporate calculations of the Renewable Plus rate?

Answer 5: State law requires that Council approve City Light’s 2022 IRP no later than August 2022. City Light expects to transmit the IRP to Council for consideration next July.

City Light would incorporate any known, committed RP energy resource into the IRP as an existing asset in the energy portfolio. City Light would extend the shared attributes of any new RP resource, such as providing resource adequacy (as noted in Q4 above), across all classes of customers. City Light says that it would include attributes of RP energy that would solely benefit RP customers only in the accounting for RP customers. And City Light would account RP revenue in the IRP revenue requirement forecast required by state law.