

June 14, 2022

MEMORANDUM

To: Economic Development, Technology and City Light Committee
From: Eric McConaghy, Analyst
Subject: Resolution 32056: Seattle City Light Strategic Plan 2023–2028

On June 22, 2022, the Economic Development, Technology and City Light Committee (Committee) will discuss and possibly vote on a recommendation to Council regarding [Resolution \(RES\) 32056](#). RES 32056 would adopt the proposed 2023-2028 Strategic Plan (Plan) for the City Light Department (City Light) and endorse the associated rate path resulting in an average annual increase in City Light electricity rates of 3.5 percent over the next six years.

Key take-aways:

- The City Light Review Panel has recommended adoption of the proposed Plan and endorsement of the rate path;
- City Light proposes increases in rates in 2023 and 2024 to cope with the significant rise in the rate of inflation since 2020; and
- The average rate increases for 2023 and 2024 in the proposed rate path¹, if applied to a consistent level of energy consumption, are estimated to increase typical bills as follows in each year:
 - Residential – \$4 per month
 - Residential in Utility Discount Program (UDP) – \$1.50 per month
 - Small Business – about \$21.50 per month each year

This memorandum provides relevant background information and highlights key aspects of the proposed Plan, the rate path, and the City Light Review Panel’s recommendation.

Background

City Light’s proposed Plan identifies and describes the collection of strategies the utility will pursue to deliver electricity services to its customers (rate payers). The cost to execute the strategies for a future year is known as the revenue requirement for that year. The average rate for any year is the forecasted revenue requirement divided by the forecasted retail sales. The year-by-year sequence of average rates for the period of the Plan is known as the rate path. The average of the yearly rates is the average for the path overall.

¹ The actual rates for different classes of customers will vary from the average rate based on cost of service and rate design.

The Council adopted [RES 31383](#) in 2012 specifying that City Light would update the utility's six-year Plan every two years, adding two years to the Plan, re-evaluating the remaining four years and revising the subsequent, six-year rate path. The City Light Review Panel (Review Panel) is charged with representing City Light ratepayers and with reviewing and assessing City Light's strategic plans ([Ordinance \(ORD\) 123256](#)).

Council typically adopts an updated City Light Strategic Plan and associated rate path by resolution in advance of passing an ordinance to establish new retail rates in the Seattle Municipal Code for all classes of customers later in the same year. City Light prepares its budget based on the codified rates. The timing of Council's expected decision on the proposed Plan and rate path resolution in early summer sets up subsequent consideration of the Executive's proposal for 2023 and 2024 rates later this summer before the Council begins budget deliberations.

City Light will seek the Mayor's approval before the Executive transmits a rate bill to Council. If approved, the anticipated ordinance will change the retail rates for all types of customers identified in [Seattle Municipal Code \(SMC\) 21.49](#).

The widespread disruption of the pandemic in 2020 interrupted the expected update of City Light's Strategic Plan and rate path. In recognition of the economic stresses due to the COVID-19 pandemic, the Executive did not transmit - and Council did not take up - rate setting legislation during 2020. In 2021, Council approved rates for 2021 and 2022 via [ORD 126302](#), the 2021 rates were effective April 1, 2021. Differing from the regular practice, City Light proposed and the Council adopted a *five-year* Strategic Plan for 2022-2026 via [RES 32007](#) after Council approved ORD 126302.

Now, in 2022, City Light has proposed a 2023-2028 Strategic Plan to Council, thereby restarting the normal, two-year cycle of strategic planning, rate path determination, and rate change adoption. Because only one year has passed since the adoption of the previous plan, City Light characterizes the 2023-2028 Plan as an update rather than a wholly new plan.

Summary

2023-2028 Proposed Strategic Plan

A. Strategies

City Light has organized the utility's activities described in the Plan under five, named business strategies. The table below list the strategies with some example activities selected from the Plan for illustration.

Strategy	Examples
Improve the Customer Experience	<ul style="list-style-type: none"> • Utility assistance programs • Billing processes and customer support • New service connections • Expanding renewable energy and energy efficiency options
Create Our Energy Future	<ul style="list-style-type: none"> • Competing for state and federal infrastructure grants • Updating the electric grid • Building and transportation electrification • Integrating grid and generation planning • Coordination of the energy market across the western US (Western energy market)
Develop Workforce and Organizational Agility	<ul style="list-style-type: none"> • Helping employees prepare and adapt to changing jobs, business processes and technology • Remodeling workspaces for hybrid work • Recruiting a more diverse pool of job applicants • Improving employee development and training • Emphasizing accountability and outcomes of work • Implementing better utility technology
Ensure Financial Health and Affordability	<ul style="list-style-type: none"> • Improving fiscal management • Implementing time-of-day rate option for retail customers • Expanded bill repayment options • Expanded financial assistance
We Power	<ul style="list-style-type: none"> • Performance monitoring • Skagit River Hydroelectric Project relicensing • Prioritizing investment in core infrastructure • New technology • Grid modernization • Design and plan for better customer service

The “We Power” strategy gathers together activities also found in other strategies “to provide (City Light’s) customers with affordable, reliable, and environmentally responsible energy services.”

B. Initiatives

City Light also spotlights four initiatives separately in the Plan.

Market Development

This initiative encompasses City Light’s participation in the Western Energy Imbalance Market, Western Resource Adequacy Program, and the West Markets Group. Each is distinct but they share the traits of seeking market solutions to make improvements in the power grid connecting energy generation with demand across the Western US and Canada. Intended outcomes include improved market efficiencies (better prices for available power for both producer and purchaser), using diverse resources (e.g., solar, wind, and hydropower), reducing carbon emissions, and increasing the reliability of electricity

delivered across long distances on a complicated and extensive power grid. The last is especially significant in the face of expectations of worsening weather conditions and other threats to the grid, like wildfire, due to climate change.

Skagit Relicensing

This initiative refers to City Light’s efforts to secure the renewal of the federal operating license for its generation facilities on the Skagit River. The Skagit River Hydroelectric Project (Project) is comprised of three dams: Gorge, Diablo, and Ross. The Project generates enough power to meet 20 percent of City Light’s load (demand for electricity). City Light emphasizes that this power is carbon-free.

The Federal Energy Regulatory Commission is the licensing agency. City Light is in the midst of a multi-year relicensing process involving 38 partner organizations and consulting parties—including federal and state agencies, Indian tribes, and nongovernmental organizations. The Plan indicates that the utility has multiple studies underway to inform the actions necessary under the new license to protect cultural, environmental, and recreational resources of the Skagit River watershed. City Light is working to secure the new 30- to 50-year license before the current license, from 1995, expires in 2025.

Electrification Strategy

This initiative encompasses City Light’s electrification strategy. City Light plans to continue to install public charging stations for electric vehicles and to work with other agencies, like King County Metro Transit, to electrify fleets. For example, City Light partnered with Metro to open the Metro Transit South Base charging facility for Metro’s new fleet of all-electric buses in March 2022. The Plan also emphasizes that “electrification of transportation and buildings is key to reducing carbon emissions...”

Critical Infrastructure

The Plan emphasizes City Light’s prioritization of critical infrastructure such as substations, transformers, and utility poles. City Light is accelerating the rate of replacement of below-standard poles in 2022 and in following years.

C. Affordability

Additionally, City Light dedicated another separate section to addressing customer billing with the slogan “affordable and stable.” With regard to affordability, City Light’s message is that customer rates will grow during the time period of the Plan in parallel with, but less than, the rate of inflation. The Plan explains that the inflation in the cost of materials is a “driving factor” for rate increases and that the cost to replace stolen materials like copper and steel “compounds cost pressures.”

The Plan points out that City Light continued to provide electricity to customers who could not pay their bills due to the pandemic. Also, it states that City Light is restarting “collection practices.” This means shutting off power for unpaid bills after attempting to get customers

with unpaid bills to avail themselves of assistance and payment plans. The Plan briefly touches on the fact that City Light must set rates to accommodate funding for the income-based Utility Discount Program, emergency bill repayment, and outreach to historically excluded communities.

Prior Council Actions

In May, the City approved three ordinances to help Seattle Public Utilities (SPU) and City Light customers who are having trouble in paying their utility bills due the effects of the pandemic. Each bill extended the availability of forms of financial assistance to SPU and City Light customers past current legislated deadlines. The City has approved extensions of these types of financial assistance several times previously since the originating legislation.

[ORD 126583](#) continued the suspension of interest charges on delinquent utility bill balances through June 30, 2023, for residential customers, non-profit customers, and commercial customers with annual receipts of less than \$5 million.

[ORD 126584](#) and [ORD 126585](#) extended the availability of expanded emergency assistance to income-qualifying households without minor children for SCL and SPU respectively until December 31, 2023. Prior to the passage of the originating legislation for this assistance², qualifying households with minor children were eligible for two emergency credits to their utility accounts per calendar year while qualifying households without minor children were eligible for one credit per calendar year. These two pieces of legislation allowed two emergency credits per year to households without minor children.

Unpaid Bills

The Plan quantifies the scale of unpaid bills by stating that 40,000 residential and business customers have unpaid bills, and that the dollar amount of unpaid bills is nearly \$40 million. In addition to the programs mentioned above, City Light and SPU have applied through the Washington State Department of Commerce (Commerce) for a portion of the \$100 million in grant funding available from the [Washington Arrears Fund](#) with expected checks to the utilities in late summer. The utilities expect additional guidance from Commerce on how the grants funds must be applied to unpaid bills, but prioritization will likely be to pay all Low-Income Home Energy Assistance Program (LIHEAP), all Low Income Home Water Assistance Program (LIHWAP)³, and low-income customer arrearages first, then move on to oldest arrearages for other customers.

Six-year Rate Path

Average rates are derived by dividing the forecasted revenue requirement by forecasted retail sales. Average rates are not billed rates. City Light will translate them from representations of average impact on customers' bills to actual rates and bring them to Council for consideration later this summer in the expected rate ordinance.

² [Ordinance 126317](#) and [Ordinance 126318](#)

³ In Seattle, [Byrd Barr administers LIHEAP and LIHWAP](#)

On average, City forecasts that the revenue requirement will increase by approximately 3.8 percent (\$40 million) per year and that retail sales will increase by 0.3 percent from 2023 to 2028. The cumulative increases in the components of City Light’s revenue requirements from 2022 to 2028 ranked from greatest to lowest are:

- Debt service coverage - \$91.2 million
- Operations and Maintenance - \$72.9 million
- Power Cost, Net - \$62.2 million
- Other costs - \$9.8 million

City Light projects retail sales to be flat over the planning horizon with potential increases in power sales with uptake in electrification of buildings and transportation around 2030.

As mentioned in the key take-aways above, City Light is proposing average rates for 2023 and 2024 that are greater those for the corresponding years in the adopted 2022-2026 rate path. City Light projected the future revenue requirements for the years of the Plan, in general, by inflating City Light’s 2022 costs.

City Light developed the average rate for 2023 by including inflationary costs from 2021 and 2022 that were not included in City Light’s operations and maintenance (O&M) budget for those years in addition to the inflationary adjustment from 2022 to 2023. However, City Light makes plain that the annual increases of the proposed rate path fall short of anticipated inflation in costs.

Moreover, the estimates for inflation in 2022 are growing as City Light proposes the rate path. While this is of concern, it is not a phenomenon unique to City Light’s budget and, as with other City departments, Council may wish to closely track City Light’s budget as we move through uncertain economic times.

For 2024, primary drivers for the increased rate include inflation, actual O&M program growth, and the costs of new, renewable power resources.

The proposed rate path would increase the average annual rate change for years 2023 and 2024 by 0.7 percent for each year compared to the rate path endorsed via RES 32007 in 2021. The table below compares the adopted rate path to the proposed.

Rate Path	2022	2023	2024	2025	2026	2027	2028	path average
Adopted 2022-2026	3.9	3.8	3.8	3.0	3.0	n/a	n/a	3.5
Proposed 2023-2028	n/a	4.5	4.5	3.0	3.0	3.0	3.0	3.5

City Light Review Panel Recommendations

In their letter to the Mayor dated May 3 ([Attachment 2 to RES 32056](#)) the Review Panel endorsed the proposed Plan and supported its adoption as presented. The Review Panel stated that they “are impressed that City Light’s near-term upward adjustments in the proposed 2023-2028 rate path are relatively minor” given the cost pressures City Light must address.

Next Steps

If the Committee votes to recommend adoption of RES 32056 on June 22, then Council could vote on the resolution as soon as June 28. If the Committee does not vote on June 22, then the Committee may continue discussion on this topic on July 13 with a Committee vote and Council action following.

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