CITY OF SEATTLE

RESOLUTION 32139

A RESOLUTION related to the City Light Department, adopting a 2025–2030 Strategic Plan Update for the City Light Department and endorsing the associated six-year rate path.

WHEREAS, in consultation with the Mayor and the City Council, the City Light Department ("City Light") initiated the strategic planning process in 2010 to provide more transparency and accountability for decision-making within City Light; and

WHEREAS, Resolution 31383, adopted July 2012, approved City Light's 2013–2018 Strategic Plan and six-year rate path, and directed the utility to review and update the Strategic Plan every two years, adding two years to the Strategic Plan and re-evaluating the remaining four years of the existing Strategic Plan; and

WHEREAS, since 2012, City Light has generally revised and updated its Strategic Plan biennially, and has provided annual reports on the progress of Strategic Plan initiatives to the appropriate City Council committee; and

WHEREAS, City Light continues the two-year update planning cycle and is delivering an update with the 2025–2030 Strategic Plan Update (Attachment 1 to this resolution); and

WHEREAS, City Light's rates and revenue requirement are governed by financial policies adopted in Resolution 31187; and

WHEREAS, per Ordinance 123256, the City Light Review Panel ("Review Panel") is charged with representing City Light ratepayers and with reviewing and assessing City Light's strategic plans; and

WHEREAS, since 2013 the Review Panel has reviewed City Light's progress in carrying out the Strategic Plan on a quarterly basis and has also reviewed the Utility's proposed changes for the 2025–2030 Strategic Plan Update; and

WHEREAS, in 2023 the Review Panel endorsed a new City Light Debt Strategy (Attachment 2 to this resolution), which establishes targets and guidelines to supplement the financial policies adopted in Resolution 31187; and

WHEREAS, the Strategic Plan is foundational to the development of City Light's budget and establishing a six-year rate path that supports budgeted programs and activities; and

WHEREAS, City Light conducted extensive outreach regarding the Strategic Plan, with customer and stakeholder group meetings, customer surveys, and employee engagement groups; and

WHEREAS, the resulting 2025–2030 Strategic Plan Update, which includes a six-year rate path, is a framework of strategies that respond to industry challenges, effect organizational change, promote diversity and inclusion, and further the Mayor's Vision for Seattle. The 2025–2030 Strategic Plan Update expands on the five business strategies included in the 2023–2028 Strategic Plan adopted in 2022. The five business strategies are: 1) Improve the Customer Experience, 2) Create our Energy Future, 3) Develop Workforce and Organizational Agility, 4) Ensure Financial Health and Affordability, and 5) We Power, which highlights our core mission of providing customers with affordable, reliable, and environmentally responsible energy services; and

WHEREAS, the Review Panel, in its letter dated May 20, 2024 (Attachment 3 to this resolution), supports the Strategic Plan Update and associated rate path. The Review Panel has identified several challenges facing City Light in the next few years, including growing customer demand from building and transportation electrification resulting in an increased need to find cost-effective clean energy resources, a backlog in service connections, a labor market in which it is difficult to attract employees without the ability to offer competitive salaries, and the need to maintain the large capital infrastructure. The Review Panel believes that City Light is well positioned, but still faces future challenges as noted; and

WHEREAS, the City Council has reviewed the Strategic Plan Update, the associated six-year rate path, the recommendation of the Review Panel, and the results of customer and stakeholder engagement; NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE, THE MAYOR CONCURRING, THAT:

Section 1. The City Council adopts City Light's 2025–2030 Strategic Plan Update (the "Strategic Plan"), a copy of which is attached to this resolution as Attachment 1 and incorporated by reference.

Section 2. To achieve the goals of the Strategic Plan and Debt Strategy, the annual rate increases for the six years shown below are endorsed:

2025	2026	2027	2028	2029	2030
5.4%	5.4%	5.0%	5.0%	5.0%	5.0%

Section 3. With the intent to achieve full enrollment by all income-eligible customers who wish to participate in the Utility Discount Program (UDP) by December 31st, 2027, the City Council requests that Seattle City Light (SCL), in partnership with Seattle Public Utilities (SPU), the Human Services Department (HSD), and other City departments as appropriate, conduct a thorough analysis of the City's activities intended to increase enrollment in the UDP. The reporting from the UDP analysis should at a minimum: document the City's performance in enrolling income-eligible customers in the UDP over the past five years; recommend modifications to the City's UDP implementation activities and eligibility qualifications intended to increase enrollment; estimate staffing changes and budgetary impacts; and forecast enrollment

increases that could result from near-term changes to the City's UDP enrollment activities by June 1, 2025, and June 1, 2026. Furthermore, Council requests that the reporting quantify the staffing changes and budgetary impacts estimated for each ten-percent increase in UDP enrollment from current enrollment to full enrollment.

SCL should file an initial report on the UDP analysis with preliminary findings with the City Clerk no later than December 31, 2024. Council recognizes that SCL, SPU, HSD, and other partner departments intend to complete a workplan to increase UDP participation by the end of 2024. Council requests that SCL file the expected workplan with the City Clerk either simultaneously with or as a part of the initial report on the UDP analysis. SCL should file the final, comprehensive report with the City Clerk no later than April 1, 2025.

Adopted by the City Council the 3rd day of September, 2024, and signed by me in open session in authentication of its adoption this 3rd day of September, 2024.

President ____________ of the City Council

The Mayor concurred the 5th day of September, 2024.

Bruce A. Harrell, Mayor

Filed by me this 5th day of September, 2024.

Scheereen Dedman, City Clerk

(Seal)

Attachments:
Attachment 1 – Seattle City Light 2025–2030 Strategic Plan Update
Attachment 2 – 2023 City Light Debt Strategy
Attachment 3 – City Light Review Panel Comment Letter on Proposed 2025–2030 Seattle City Light Strategic Plan Update


POWERING AHEAD
STRATEGIC PLAN UPDATE 2025–2030
Seattle City Light

MESSAGE FROM THE GENERAL MANAGER

The energy landscape is rapidly transforming, presenting monumental challenges for the public utilities sector. We are facing rising wholesale energy prices, more frequent extreme weather events caused by climate change, and the impacts of low-water flow on our hydroelectric generation capacity.

At the same time, customer demand is escalating quickly. Retail demand from building electrification is growing three times faster than we projected in 2022 and transportation electrification demand has increased 70% above 2022 estimates. In a matter of years, demand will outpace energy savings from efficiency.

Seattle City Light, a leader in clean energy and environmental stewardship, is primed to meet these challenges, and the Strategic Plan is our guide. It keeps us pointed toward our long-term goals, helps us navigate uncertainties, and reinforces our commitment to deliver affordable, reliable, and environmentally responsible energy services.

We develop a full strategic plan every six years and update it every two years to incorporate input from City Light's Review Panel, customers, and stakeholders, adjust for new forecasts, and report our progress.

This 2025–2030 Strategic Plan Update reflects what we've learned since 2022 and reiterates our commitment to developing our workforce; identifying cost-saving opportunities; investing in infrastructure; incorporating new technologies; and enhancing cyber security. It also includes bold initiatives to meet the challenges ahead, like technology expansions that integrate renewable energy and demand response programs to reduce strain on the grid.

Like many public power utilities, City Light is undergoing an expansive—and expensive—transformation. This Strategic Plan Update calls for rate increases to produce enough revenue to cover rising costs. As a not-for-profit utility, we work hard to keep rates affordable. We also offer utility assistance programs for customers with limited incomes.

I am honored to lead City Light and to share this Strategic Plan Update with you. With this plan we will continue to power our region and build a more equitable and sustainable future, while maintaining the flexibility to adapt in an evolving energy landscape.

Dawn Lindell
General Manager/CEO
Seattle City Light

MISSION, VISION, AND VALUES

Our mission, vision, and values help to define and guide who we are, where we are going, and what is most important to focus on in the work we do every day.

MISSION

Seattle City Light provides our customers with affordable, reliable, and environmentally responsible energy services.

VISION

Create a shared energy future by partnering with our customers to meet their energy needs in whatever way they choose.

VALUES

Customers First
We believe customer service is everyone's job. We pledge to be approachable, respectful, and responsive in providing products and services that our customers want and need.

Environmental Stewardship
We care about the environment, and we are dedicated to enhancing, protecting, and preserving it for future generations.

Equitable Community Connections
We are proud to be a local, community-owned utility. We are visible and actively involved in the communities we serve. We are rooted in our commitment to racial diversity, social justice, and the equitable provision of services to all.

Operational and Financial Excellence
We strive for excellence, are forward-focused, and seek new and innovative solutions to meet the challenges of today and tomorrow. We prioritize our investments and operating choices to build upon our strong financial foundation and solid, reliable infrastructure.

Safe and Engaged Employees
We actively practice our commitment to employee and public safety. We treat each other with kindness and respect, are personally accountable, and work effectively in teams.

ACCOMPLISHMENT HIGHLIGHTS

City Light continues to make significant progress on its strategic priorities. Below are key accomplishments that highlight just a few of the ways we have supported our customers and community, invested in our people and processes, managed our resources wisely, and built a strong energy future.

Spent $12+ Million to Assist Customers Who Struggled to Pay Bills

City Light remains committed to helping customers who are facing financial challenges. In 2022, we distributed $9,756,600 in state pandemic funds to 16,990 customers to help reduce past-due balances. We also distributed $1,056,200 through our Emergency Bill Assistance program and $2,706,400 in Low-Income Home Energy Assistance Program funds. In 2023, we allocated another $880,000 in state funds to help low- and moderate-income residential customers who were receiving help from utility bill assistance programs.

Additionally, as part of our shared commitment to meeting customers' needs, we partnered with Seattle Public Utilities to launch a newly designed online application process for the City of Seattle Utility Discount Program called the Utility Assistance Program. Consolidating three separate applications into one created a simplified approach that provides customers with a more straightforward process and a better user experience.

Gave Customers New Tools to Understand and Manage Their Energy Use

City Light has continued to roll out enhancements to our Utility Services Website since it was introduced in 2020. Most recently, we have made daily electricity usage data available, giving customers the information they need to understand their household energy use and make decisions for cost-saving energy adjustments.

Collaborated with Partners to Steward the Skagit River Watershed and Plan for the Future of the Skagit Hydroelectric Project

City Light's Skagit River Hydroelectric Project is a series of three dams that make up 20% of our power portfolio. In April 2023, we submitted a final license application to the Federal Energy Regulatory Commission detailing plans to operate the Skagit River Hydroelectric Project for the next 50 years. The final license application is a significant milestone and represents years of collaboration among Treaty Tribes, Canadian First Nations, federal and state regulatory bodies, environmental groups, and nearby communities. The application is a complete and comprehensive plan that balances the need for renewable energy with the need to respect Tribal interests and be good stewards of the ecosystem.

ACCOMPLISHMENT HIGHLIGHTS

Refined Our Wildfire Risk Reduction Strategy

Climate change is making wildfires more frequent and intense. To address the escalating challenge of wildfire, we refined our Wildfire Risk Reduction Strategy. Released in August 2023, the strategy prioritizes minimizing potential damage through risk reduction plans that deter wildfire occurrences while ensuring we are prepared to respond effectively and recover quickly when fires occur. We applied the strategy during the 2023 Sourdough Fire near our Skagit Hydroelectric Project facilities to maintain operations and monitor infrastructure so that customers experienced little to no impact from the fire.

Improved the Customer Experience

City Light is committed to improving the customer experience. In 2022 and 2023, City Light secured the highest business customer satisfaction index score among midsize electric utilities in the Western United States in the J.D. Power 2023 Electric Utility Business Customer Satisfaction Study℠.

Advanced Transportation Electrification

The electrification of transportation is key to reducing carbon emissions and combating climate change. In 2023, we launched incentive programs and technical support for businesses transitioning to electric fleets and multifamily customers looking to install EV chargers at their properties. We have completed our pilot program to install 131 Multifamily Level 2 EV chargers and 31 curbside charging stations at neighborhood locations across the city. We also joined statewide partners in unveiling the first electric bus in the Amtrak National Network.

Supported Green Energy in the Community

In 2023, City Light invested $785,000 in renewable energy credits through the Green Up Community program, which incentivizes the installation of new rooftop solar energy hosted by affordable housing, local nonprofits, and public entities. The goal is to help them reduce operating costs, allowing them to focus on their respective missions to provide quality services to meet the needs of our community. Green Up is funded by a voluntary renewable energy credit (REC) purchasing program in partnership with the Washington State Housing Finance Commission's (WSHFC) Sustainable Energy Trust.

Expanded the Energy Heroes Program

During the 2022–2023 school year, we expanded our Energy Heroes program. We taught more than 2,000 students at 17 schools in our service area about electrical safety, energy conservation, and all things renewable. We also completed a pilot for a new high school workshop on electrification and equity. Since 2008, Seattle City Light has provided the Energy Heroes educational program to classrooms across our service area. We've been hard at work helping students learn the ins and outs of electrical safety, energy conservation, renewable energy, and more.

Welcomed a New Tenant to the Denny Substation

In late 2023, we celebrated the opening of a newly designed and built-out section of the Denny Substation in South Lake Union. YouthCare, a nonprofit youth homelessness services provider, will use the space to provide education and workforce development services for young people experiencing homelessness.

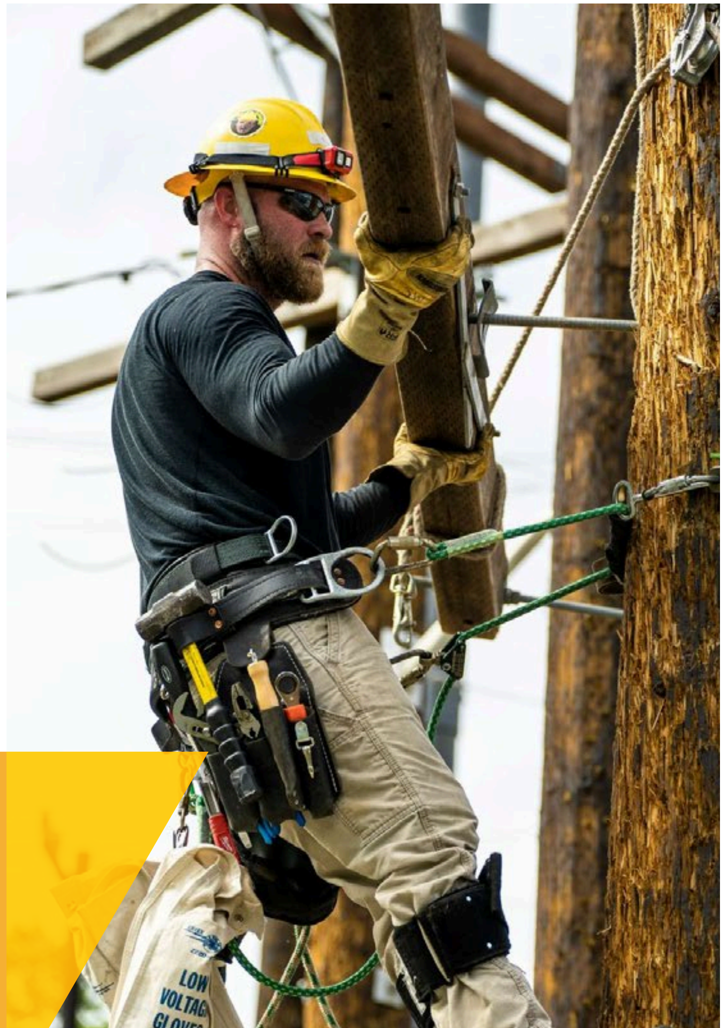
Expanded Access to Recreational Opportunities

In the summer of 2023 we opened two new overlook areas in northern Pend Oreille County, home to City Light's Boundary Dam Hydroelectric Project. The Peewee Falls and Riverside Canyon overlooks make breathtaking views accessible to the public with new restroom facilities, picnic tables, ample parking, and gravel walking trails with easy grades. Future improvements will include the completion of a trail that links the two new overlooks, which has been officially named słqqaxs č čaxíwłkʷ (the Salmon Passage Trail) in consultation with the Kalispel Tribe of Indians.

Gave Back to the Community

City Light's employee-led fundraising efforts brought in thousands of dollars to support important community causes. Our annual Toys for Tots holiday drive brought in a record $11,000 and filled 91 bags with toys—our most successful toy drive to date.

STRATEGIC PRIORITIES



Our strategic priorities support our mission, vision, and values and reinforce our commitment to operational excellence and customer service. While our business strategies remain unchanged from the previous update, the way we define success has evolved. As we plan for the future of providing customers with affordable, reliable, and environmentally responsible energy services, we are focusing on outcomes—why we do what we do. The sections that follow describe the outcomes City Light aims to reach in the coming years along with examples of our work in each area.

1. **Improve the Customer Experience**
2. **Create Our Energy Future**
3. **Develop Workforce & Organizational Agility**
4. **Ensure Financial Health & Affordability**
5. **We Power**

1 IMPROVE THE CUSTOMER EXPERIENCE

We prioritize our customers and strive to tailor our services to meet their needs and exceed expectations. That's why we're investing in improvements that will make our services more accessible and provide more options. Whether we're enhancing our programs or introducing new ones, our goal is to better serve our customers. Our work in this area strives to deliver the following outcomes:

Deliver Programs Aligned with Customer Priorities

City Light is focused on enhancing our understanding of customers' needs so we can offer products and services that make a difference in their lives.

Initiative Highlight: Customer Insights

We are enhancing our Voice of the Customer program by expanding and improving our data collection to deepen our understanding of customer preferences and inform our work. We are also increasing internal engagement with the program through briefings, workshops, and feedback opportunities, ensuring employees have the information necessary to design and deliver services and programs that match customers' needs.

Decrease Unplanned Outages in Service Areas That Experience Above-Average Outage Rates

Some regions of City Light's service area experience above-average power outages. We are committed to changing that.

Initiative Highlight: Outage Management System

We are updating our Outage Management System, including increasing our capacity to collect and analyze outage data. This will improve our awareness of the health of our power grid and help us identify and respond to outage trends.

Provide More Predictable Service Connection Timelines

City Light is committed to providing customers awaiting service connections with timelines that allow them to plan accordingly.

Initiative Highlight: Service to Bill

City Light's Service to Bill program uses data from a comparative study of peer utilities to inform our Residential Electric Service Connection timelines strategy. We are also continuing our work to better communicate service delivery expectations and create a more transparent application process, and we are exploring ways for customers to request early design guidance before starting a project or submitting an application.

2 CREATE OUR ENERGY FUTURE

The future of energy is arriving ahead of schedule and is dramatically impacting the energy landscape. Disruptive forces have accelerated, and we must be prepared to address climate change, a shift from using fossil fuels to clean electricity, and an increase in electricity demand from electric vehicles and building standards. These changes impact our infrastructure from generation to how we connect to your home or business. We are improving our systems and infrastructure to meet our capacity needs now and in the future. Our work in this area strives to deliver the following outcomes:

Secure a Diverse Mix of Long-Term Energy Resources to Meet Growing Demand

We aim to have enough different energy sources to keep up with growing needs and future growth. This will help people make the switch to electricity for transportation and buildings. We are preparing with the help of long-term planning and trying new ideas like demand response.

Initiative Highlight: Long-term Energy Portfolio

City Light is considering a broad set of resources to incorporate into our resource portfolio, including different types of storage technologies, geothermal, solar, and onshore and offshore wind.

The Integrated Resource Plan will inform future acquisition of new electric generation or storage projects.

Support Customer Adoption of Transportation and Building Electrification

Making the switch to electricity for transportation and buildings will be a tremendous change. We are committed to equitably supporting all customers, big and small, in their decarbonization efforts.

Initiative Highlight: Transportation Electrification

Our Transportation Electrification work offers customer programs that provide technical support, as well as charger incentives.

City Light also owns and operates public chargers for our customers and aims to bring community-focused projects to residents.

Improve Energy Delivery Infrastructure to Meet Current and Future Capacity Needs

Creating our energy future depends on ensuring our infrastructure can meet evolving needs. Our grid must support a two-way flow of electricity as well as increased demand from electrification and severe weather events.

Initiative Highlight: Grid Modernization

As our world and environment change, the grid must keep up. We will ensure the grid is reliable, resilient to impacts from climate change, and secure from cyberattacks by updating grid infrastructure, integrating renewable energy resources, and accommodating new technologies.

3 DEVELOP WORKFORCE & ORGANIZATIONAL AGILITY

As our industry and customers rapidly change, we must invest in our people and processes to enable them to respond, adapt, and thrive. We are creating a flexible and responsive organization by focusing on change management, training, and new technology. Our efforts aim to attract, train, and keep talented staff. We want to see higher employee engagement, more career opportunities, and staffing that supports our organizational priorities. Outcomes of our work in this area will include:

Increase Employee Engagement

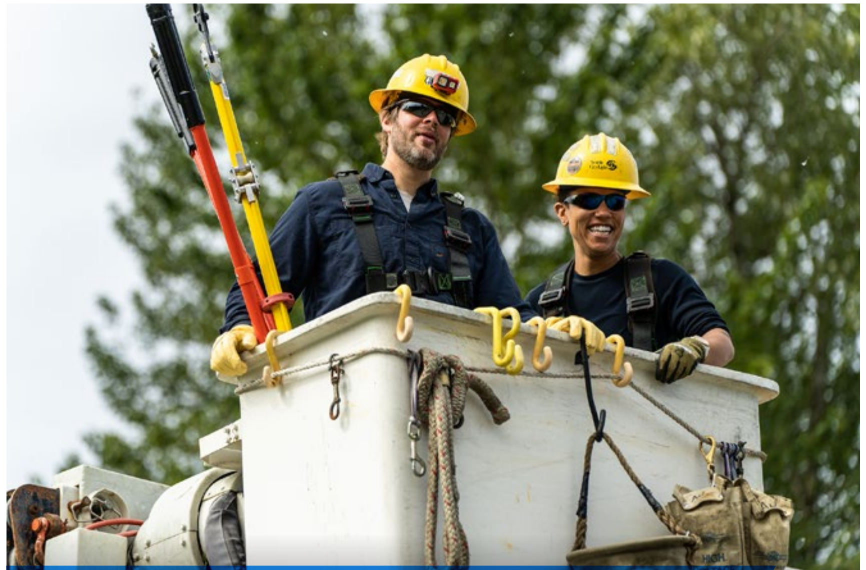
We're focused on increasing employee satisfaction across the organization. We will use our employee survey to identify ways to support employees and managers through the many changes to our work.

Initiative Highlight: Organizational Change Management

City Light is creating a Change Management Community of Practice to provide opportunities for continuous learning, knowledge sharing, and collaboration in support of a more engaged and motivated workforce. We aim for this initiative to spark creative solutions and foster a culture of innovation that benefits the entire organization.

Provide Opportunities for Career Mobility

We're focused on supporting our employees at every stage in their career, ensuring they have the tools and resources they need to explore opportunities and take on new roles.



Initiative Highlight: Performance Development

City Light's performance development work will provide managers with the performance tools and resources needed to help employees achieve their career goals within the organization. We aim to foster an environment where employees can flourish in their current role, while preparing them for future career exploration and growth within the utility.

Prioritize Our Work and Staff It Accordingly

Our recruitment strategy, particularly in trades, will help us ensure we have the right people to help us perform our work and deliver essential services.

Initiative Highlight: Attract, Train, and Retain

City Light will develop a comprehensive talent recruitment, training, and retention strategy to help the organization become a top choice for prospective employees and align our hiring practices with emerging market and talent trends. This work will include assessing the utility's staffing needs, forecasting hiring trends, and designing data-driven recruitment strategies.

4 ENSURE FINANCIAL HEALTH AND AFFORDABILITY

Financial stability is crucial to our future. It allows us to create innovative energy solutions, invest in critical infrastructure, and keep our rates affordable. We are dedicated to supporting long-term affordability in Seattle. This means having rates that are understandable and fair for everyone, especially those who are more vulnerable. We are committed to setting rates in a way that is sustainable and predictable over time. We're also offering new pricing options to help people manage their energy costs better. Our outcomes in this area include:

Reduce Volatility in Power Supply Costs

To reduce volatility in power costs and improve rate stability for customers, we will adapt our internal risk, forecasting, monitoring, and contracting practices to respond to changes in the wholesale power market.

Initiative Highlight: Market Risk Management

Increasingly severe weather events, growing demand, and the region's changing energy supply mix make markets more dynamic and increase City Light's financial risk. We will update our power marketing practices to mitigate risks and optimize the value of our resource portfolio. We will also pursue participation in new markets, allowing us to efficiently use our power generation and transmission assets to integrate new green resources like wind and solar.

Allocate Resources to Balance Growing Energy Costs and Customer Expectations

Adjusting our resourcing strategies to better match customer priorities is a win-win. For example, time-of-use pricing rewards customers who use electricity when power is cheaper and demand is lower, with lower rates. Customers enjoy cost savings, and we all benefit from reduced strain on the electric grid.

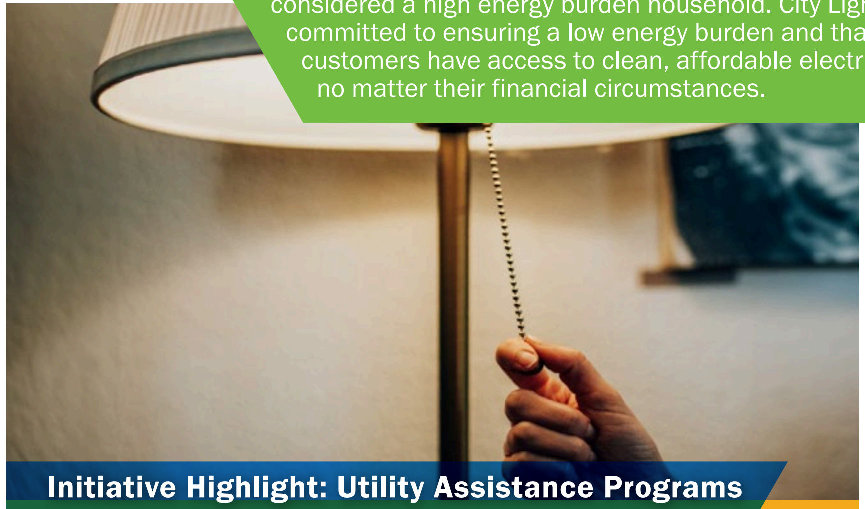
Initiative Highlight: Renewable Plus

City Light's Renewable Plus program will offer large customers a "bundled" renewable energy product—solar/wind energy (kWh) along with the associated Renewable Energy Certificates—to help meet their sustainability and climate goals. The program will include new solar resources located in the Pacific Northwest, with an online target date of 2025. Customers will sign 15-year Participation Agreements and will receive the bundled product once projects are complete and generating power.

Limit Energy Burden on Customers

Lastly, we'll continue supporting and improving programs that help ensure customers can afford their utility bills and get assistance when they need it.

What is "Energy Burden"? The share of annual household income used to pay annual home energy bills. A household that pays 6% or more of its income on energy costs is considered a high energy burden household. City Light is committed to ensuring a low energy burden and that all customers have access to clean, affordable electricity no matter their financial circumstances.



Initiative Highlight: Utility Assistance Programs

Upon completion of a comprehensive evaluation of the City of Seattle's Utility Assistance Programs, City Light will begin implementation of program redesign initiatives aimed at re-centering customer needs in our income-qualified service offerings. This includes intentional and systematic changes to eliminate barriers of access to programs, increase enrollment and retention of eligible customers, and drive down customer energy burden to help customers keep current on their utility bills.

5 WE POWER

“We Power” refers to our core mission as a utility—to provide affordable, reliable, and environmentally responsible energy services to our customers. This drives everything we do, and our values guide us in achieving this goal. Our commitment to our core business operations and delivering value to our customers includes: providing the energy services our customers need by taking care of our key assets and infrastructure; prioritizing diversity, equity, and inclusion; and managing and mitigating the challenges, risks, and uncertainties of a changing world. City Light’s “We Power” outcomes include the following:

Enhance Our Response to the Environmental Impacts of Climate Change

We’re implementing initiatives to ensure we continue to have a reliable power supply in a changing environment.

Initiative Highlight: Wildfire Reduction and Mitigation Strategy

We are committed to reducing wildfire risks by implementing City Light’s Wildfire Risk Reduction Strategy. The strategy, completed in 2023, addresses the potential for our assets and infrastructure to cause wildfires and be impacted by them. Key elements include risk assessment and mitigation, including actions such as grid hardening and vegetation management; emergency management to monitor for high-risk weather conditions; stakeholder engagement; coordination with emergency management agencies and municipalities; and governance and accountability.

Efficiently Manage Operations to Comply with Expanding Regulations

As we plan for the future of providing affordable, reliable, and environmentally responsible energy services, we commit to meeting regulatory obligations such as dam safety and emissions requirements.

Initiative Highlight: Emissions Regulation Compliance

City Light must comply with a variety of local, state, and federal policies related to climate change and greenhouse gas emissions. We will manage compliance as a holistic program to help ensure the reduction of City Light’s greenhouse gas emissions, minimize compliance costs, optimize our portfolio of resources, and capitalize on opportunities.

Enhance Technology and Cyber Security to Adapt to the Rapidly Evolving Energy Landscape

We are investing in technology and cyber infrastructure enhancements to ensure we continue to be responsive and resilient to the challenges presented by a changing energy landscape.

Initiative Highlight: Distributed Energy Resource Management System

City Light’s Distributed Energy Resource Management System is an essential technology for establishing a grid that supports the two-way exchange of energy between the utility and our customers. This will allow us to manage the operation of distributed energy resources such as solar panels, wind turbines, and energy storage systems—all key to decarbonizing the energy sector. It will also manage the charging and discharging of electric vehicles and other energy storage systems, supporting both vehicle and building electrification and enhancing grid stability.

FINANCIAL REQUIREMENTS & RATE PATH

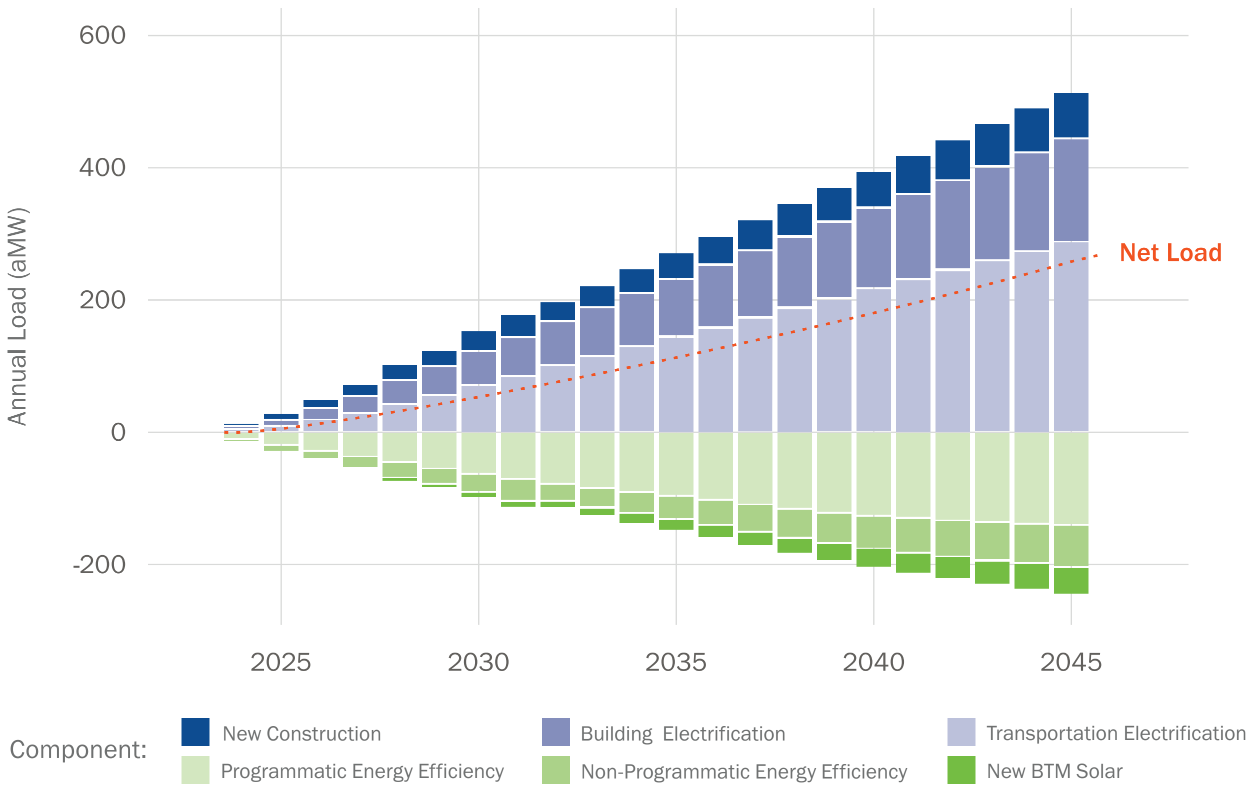
Seattle City Light's revenue requirements and rates are expected to increase as the projected pace of electrification intensifies.

Factors Impacting Rates

City Light's cost to provide reliable service is increasing due to growing customer demand spurred by building and transportation electrification; securing additional power resources to meet growing load and to ensure reliability; anticipating costs associated with relicensing the Skagit Hydroelectric Project; and incorporating wage and materials inflation.

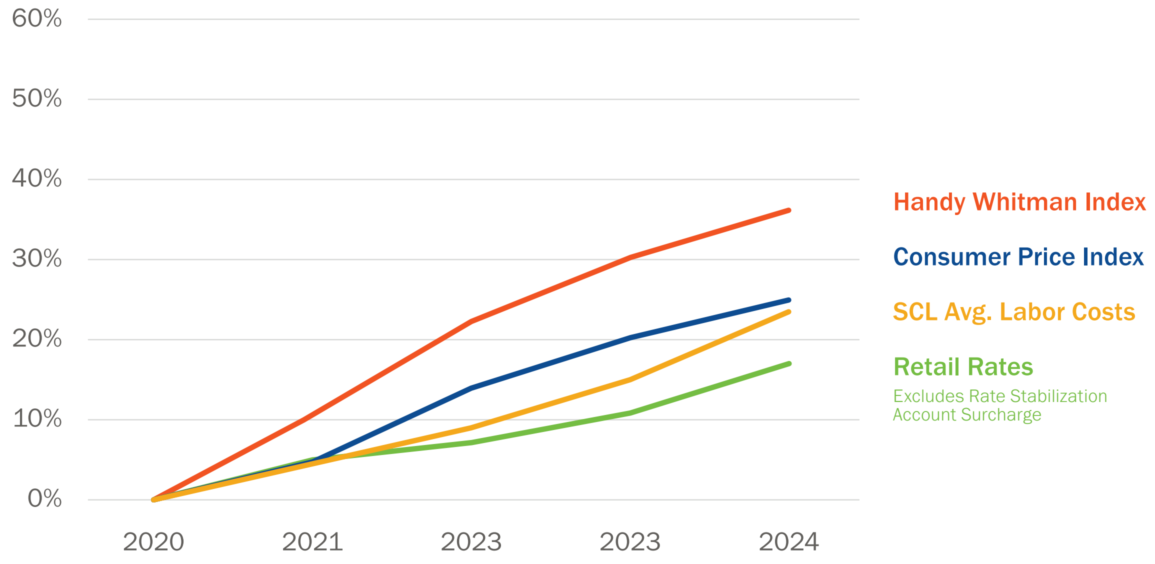
Load Growth

This chart shows the drivers that pushing retail load up or down compared to 2023 levels. Electrification of buildings and transportation is expected to drive significant load growth in the coming years.



Cumulative Rate Increases and Inflation

Retail rates have not kept pace with increasing costs for labor and materials, particularly in the energy industry.



Cost Management Savings

City Light recognizes the challenges rate increases present to our customers and community, and we continue to identify cost savings and cost avoidance opportunities wherever possible. For example, City Light's Hiring Advisory Team evaluates every position request, including backfills for existing positions, to ensure the utility uses each position for the best, highest purpose. The utility's Capital Governance & Oversight Committee performs a similar function for City Light's Capital Improvement Program.

Rate Path

As a public utility, City Light operates to benefit the public – you are our shareholders. This means we spend ratepayer money carefully and we drive down costs through prudent management. While we remain committed to managing costs, we cannot meet the increasing financial pressures of higher power costs, electrification, and the impact of new regulatory requirements without also raising rates.

This Strategic Plan Update results in a rate path of 5.4% increases annually for the first two years and 5% annually for the remaining four years.

2025	2026	2027	2028	2029	2030
5.4%	5.4%	5.0%	5.0%	5.0%	5.0%

Bill Impact

For 2025 and 2026, the 5.4% percent increase translates to about $4.88 a month for a typical residential bill or $1.95 a month for a typical residential Utility Discount Program (UDP) bill.

CUSTOMER BILL IMPACT EXAMPLES	Monthly Bill 2024	Monthly Increase 2025	2026	2027	2028	2029	2030	AVG
Residential (630 kWh/month)	$87.99	$4.75	$5.01	$4.89	$5.13	$5.39	$5.66	$5.14
Residential - UDP (60% Discount)	$35.20	$1.90	$2.00	$1.96	$2.05	$2.16	$2.26	$2.06
Small Commercial (Car Wash)	$515	$28	$29	$29	$30	$32	$33	$30
Medium Commercial (Retail Store)	$8,298	$448	$472	$461	$484	$508	$534	$484
Large Industrial (Cement)	$27,060	$1,461	$1,540	$1,503	$1,578	$1,657	$1,740	$1,580
Large Commercial (Hospital)	$105,206	$5,681	$5,988	$5,844	$6,136	$6,443	$6,765	$6,143
Large Commercial (Education)	$2,311,844	$124,840	$131,581	$128,413	$134,834	$141,576	$148,654	$134,983

Affordability

Access to affordable electricity for everyone is our goal. As a community-based electric utility, rates include funding for income-based bill discount programs, emergency bill repayment resources, and outreach to historically excluded communities, so all customers can access help when they need it.

Seattle City Light

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Seattle, WA 98124

seattle.gov/light
206.684.3000

REVIEW PANEL

The Seattle City Light Review Panel is comprised of nine members drawn from among City Light's customers and stakeholders, to review and assess City Light's strategic plan and provide an opinion on the merits of the plan and future revisions to it to the Mayor and the City Council.

Timothy Skeel
Consultant, Economics and Asset Management
Position 1: Economist

John Putz
Senior Strategist, The Energy Authority
Position 2: Financial Analyst

Kerry Meade
Executive Director, Building Potential
Position 3: Nonprofit Energy Efficiency Advocate

Leo Lam
Chief Executive Officer, WEVE Design
Position 4: Residential Customer Representative

Mikel Hansen
Chief Operating Officer, Sabey Corporation
Position 5: Commercial Customer Representative

Amy Altchuler
Director of Sustainability, First Mode
Position 6: Industrial Customer Representative

Oksana Savolyuk
Energy Program Director, Multi Service Center
Position 7: Low-Income Customer Representative

Di Do
Vice President of Marketing & Communications, NorthStar Energy
Position 8: At-Large Customer Representative

Joel Paisner
Partner, Ascent Law Partners, LLP
Position 9: Suburban Franchise Representative

APPENDICES

Financial Forecast   Outreach Summary

Visit the Seattle City Light Strategic Plan website to learn more.

2025-2030 Strategic Plan Update Outreach Summary

Executive Summary

In accordance with Resolution 31463, adopted in September 2013, Seattle City Light engaged with customers and stakeholders to offer opportunities for these groups to provide input on the 2022-2026 Strategic Plan, the 2023-2028 Strategic Plan Update, and the 2025-2030 Strategic Plan Update. Outreach efforts for the new six-year Strategic Plan began in early 2020, when the intent was to publish a plan in 2021 in line with the normal cadence of City Light's strategic planning process. However, when the COVID-19 pandemic arrived in our region in March 2020, progress on the strategic plan was halted in order to attend to the more pressing needs of our community, staff, and business.

When the planning process resumed in early 2021, outreach for the new plan resumed as well. In March and April 2021, City Light presented our six-year 2022-2026 Strategic Plan to community groups and hosted a virtual town hall open to the public. We created a Strategic Plan Executive Summary document and made the summary and presentation slides available online for those who were unable to attend one of the outreach sessions.

For the 2025-2030 Strategic Plan Update, City Light engaged with over 130 customers and stakeholders. We continue to build on previous outreach efforts. As some of the business strategies and programs identified in the 2022-2026 Strategic Plan and 2023-2028 Strategic Plan Update are multi-year efforts, we continue to reference the feedback we received earlier to inform planning and implementation for 2024 and beyond. City Light plans to continue discussions with customers and stakeholder groups to inform program plans going forward. The outreach efforts we initiated for the 2022-2026 Strategic Plan are leading to ongoing, mutually beneficial relationships with community-based organizations and stakeholders as we continue moving forward over the next six years.

Outreach Methods

Residential Customer Satisfaction Survey

In October 2023, the Seattle City Light Residential Customer Satisfaction Survey was conducted using both phone and text-to-online formats. City Light provided the research consultant with a list of 462,304 customers, from which a random representative group of respondents were contacted via home phone (to take the survey over the phone) or via cell phone (sent a text with a link to take the survey online). The random-sample format was conducted from October 5-12, 2023. The sample size was 620 residential customers.

An overwhelming majority (81%) of residential customers are satisfied with the overall service they receive from City Light (54% very satisfied and 27% somewhat satisfied). Reliability of service is the main reason most customers are satisfied. A majority of customers rate City Light positively for almost every service area tested (providing reliable service, being responsive and friendly, having affordable rates, keeping customers informed, providing clean power, helping reduce energy use, and being active in the community).

Of the 17% of residential customers who are not satisfied, they reported that cost is the primary concern. Outages, billing issues, and customer service are second-tier concerns.

Customers continue to rank providing carbon-free power as their highest priority. Providing quality customer service, keeping customers informed about changes that can affect them, and helping customers manage their energy use continue to be the second-tier priorities for most residential customers.

The survey results show that customers are most likely to interact with City Light first via website (to pay their bill online or to find information) and second by phone. Most customers are satisfied with getting answers to their questions and service needs resolved, regardless of which method of communication is used.

Customers are more aware of programs for billing and payment assistance than programs to help save energy, money, and the environment. Lack of awareness of these programs is higher among People of Color and residents that are new to the Seattle area.

Customers in every demographic group have positive perceptions of solar, wind, and hydropower energy from dams.

Community Engagement with Seattle Environmental Justice Communities Report

In 2023, Kambo Energy Group, a social enterprise company that designs and delivers turn-key energy solutions for environmental justice communities on behalf of utilities, interviewed and engaged with over a dozen influential community leaders from environmental justice communities across the greater Seattle region. Community leaders were largely concerned with affordability. The Kambo report demonstrates that City Light customers need support to understand their bills. Households need help understanding their bills, especially when the bill is high. City Light has an opportunity to improve messaging and communications to help customers understand their bills. Community-based organizations often provide assistance to help households navigate systems and pay their bills online.

It was further highlighted that the Utility Discount Program (UDP) has inherent barriers that prevent residents from participating. Community-based organizations (CBOs) that offer UDP support can build awareness and support the households they work with to participate in the program, however, leaders shared concerns that households who are not connected to these CBOs can't access UDP, either because they do not know about the program or because they do not have the digital and literacy skills needed to apply.

Clean Energy Future Survey

The Clean Energy Transformation Act (CETA) commits Washington to an electricity supply free of greenhouse gas emissions by 2045. Clean electricity will allow Washington residents and businesses to power their buildings and homes, vehicles, and appliances with carbon free resources, such as wind and solar. Reductions in fossil fuel use will improve the health of communities, grow the economy, create family-sustaining jobs, and enable the state to achieve its long-term climate goals.

The law provides safeguards to maintain affordable rates and reliable service. It also requires an equitable distribution of the benefits from the transition to clean energy for all utility customers and adds and expands energy assistance programs for income-eligible customers.

In August 2021, Seattle City Light sent out a Clean Energy Future survey to 180,000 residential customers via email. The total number of responses that City Light received was 4,522. The survey questions were informed by CETA equity indicators as well as other utility-wide initiatives including the Transportation Electrification Strategic Investment Plan, the Clean Energy Implementation Plan, the Integrated Resource Plan, and the 2022-2026 Strategic Plan that had been recently adopted.

A vast majority of respondents were concerned about climate change. All demographics listed reducing climate change impacts, reducing reliance on fossil fuels, and reducing environmental impacts as the three most important benefits of achieving 100% clean energy by 2045. The main concerns with achieving 100% clean energy were a mixture of four responses: bill increases, negative impacts of clean energy technology, reliability of service, and construction impacts. More than 80% of respondents believe that City Light's power supply is less than 90% renewable and 41% of respondents believe less than 50% is renewable.

When asked about transportation, more than half of respondents listed a personal vehicle as their main form of transportation. Low-income customers and renters are the most likely to use public transportation. The main concerns when choosing transportation were a mix between ease of access to home/work, commute time, options to reach destination, and cost.

When asked how comfortable respondents were in transitioning to all electric in their daily life (electric cooking, electric heat, electric vehicle, etc.), more than half responded with 'very comfortable', and about a quarter responded somewhat comfortable. Renters are the most comfortable transitioning to all electric in their daily lives.

Customer Experience Outreach

City Light has continued to engage with customers to understand the barriers they face when interacting with the utility. A core commitment for the 2022-2026 Strategic Plan and 2023-2028 Strategic Plan Update was to improve the customer experience. This cannot be done without working directly with our customers to understand the challenges they face when interacting with City Light.

In 2022, City Light, Seattle Public Utilities (SPU), Human Services Department (HSD), and Seattle IT launched a new Utility Assistance Programs online application process. This online application provides access to City Light and SPU emergency assistance programs for residential customers. The online, automated system provides a single, streamlined process for all customer assistance programs. This is one way we can continue to improve the customer experience.

Efforts are underway to modernize and improve the customer journey by making the Utility Discount Program more accessible for income-eligible customers. City Light and SPU continue to add new features to the Utility Services Website to enhance self-serve options and the overall customer service experience.

Stakeholder Meetings

City Light presented at two annual forums and contacted four stakeholder groups offering an opportunity to hear more information about the 2025-2030 Strategic Plan Update. Stakeholder meetings were arranged for City Light leadership to provide an overview of the strategic priorities and answer questions. Over 130 individuals participated in these stakeholder meetings. City Light heard a variety of perspectives and gathered feedback about the strategies presented in the plan. A summary of the stakeholder meetings and key findings are presented on the following pages.

Stakeholder Meetings

Summary of Meetings

Date	Stakeholder Group	Key Questions/Comments	Number of Attendees
October 25, 2023	Annual Key Customer Forum	• High level of interest and concern about rate increase • Questions about how long it will take to refill the Rate Stabilization Account to $100 million • Concerns and questions about how City Light is actively preparing to diversify generation resources to address climate change and future hydropower uncertainty	51
October 30, 2023	Annual Franchise City Forum	• Interest in more robust marketing for City Light programs that customers and businesses in the franchise cities can take advantage of • Question about network and non-network services • Questions about upcoming projects and what impacts may be to ratepayers • How to show customers benefits of electrification initiatives despite concerns and hesitation from the general public	18
March 8, 2024	Community Action Agencies	• Concerns about City Light rates • Look at energy burden more holistically • Re-evaluate utility assistance programs • Start a committee to work together to identify solutions for income-eligible customers	7
March 18, 2024	NW Energy Coalition	• Questions about how City Light plans to meet higher demand due to electrification • Questions about market power purchases and long-term planning for future resource needs • Questions about make-ready incentives for EV chargers • Questions about what City Light needs from the state legislature to help set policy	31

Date	Stakeholder Group	Key Questions/Comments	Number of Attendees
March 26, 2024	Building Owner and Managers Association (BOMA)	• Concerns surrounding condition of existing, aging infrastructure • Predictable service connection timelines and rate predictability is important • Concern about load growth and City Light's ability to respond • Since downtown network rate is higher, customers would like to see accountability for what the higher rates are used for • Interest in incentive programs to help businesses fund the move to electrification	13
March 27, 2024	Franchise Cities	• Question about grid modernization • Question about grid security • Ensure adequate power that aligns with franchise city plans for development/redevelopment • Adequate capacity for electrification, particularly support for electric vehicles • Support delivery of franchise city capital projects	11
Total Attendees			**131**

Key Findings

Affordability and Predictability of Rates

Customer bills remain a high priority across all stakeholder groups. Stakeholders expressed interest in understanding how their rates are currently structured, how rates might be structured in the future, and how City Light can ease transitions to higher or different rates. Customers would like to see a clear explanation when rates are going to change, and they ideally would like rates to increase at a time of year when energy use is not at its peak. Customers also had questions about how advanced meters will impact rates and improve the customer experience.

Residential customers emphasized the need to reimagine some of our bill assistance programs to help those who currently "fall through the cracks" of existing programs. Feedback included encouraging City Light to look at energy burden more holistically and reimagine what assistance programs can look like to benefit the most people who need help.

Mixed Feelings Around Electrification

Stakeholders from environmentally focused groups applauded City Light's plans for increased electrification and urged the utility to be a leader in bringing the region along with us.

However, for others, there were concerns. Business owners are apprehensive about the high costs associated with retrofitting existing buildings to conform with new electrification standards and pushed for more incentives for converting to electric. Some business representatives noted that they would support a modest rate increase to fund more commercial incentives. These customers also had questions about how City Light's electrical grid will be able to handle the increased load that will come with more electrification. Commercial customers are eager to see City Light continue to make improvements to our infrastructure so that their power supply is more reliable and consistent.

Environmental justice community members want to ensure that electrification does not come at the expense of their communities through unintended impacts. These representatives would like to see pathways to green jobs and opportunities for Black, Indigenous, and People of Color (BIPOC) community members not only to start jobs at City Light, but to advance through the utility.

Additional Programs and Interest in Solar

According to the Clean Energy Future Survey, customers have interest in additional programs and education surrounding renewable energy, electric vehicles, and solar power. The top area of interest was the development of solar in our region, most notably solar incentives, residential solar, solar education, and community solar programs.

Building Awareness of Utility Incentives

Residential customers expressed interest in receiving personalized and educational messaging related to utility rebates and incentives. Overall, customers would like to learn more about incentives and receive information to help homeowners and renters save energy and adopt new energy technologies (such as electric vehicles and solar panels).

Customer Involvement in Utility Decision Making

Commercial and residential customers alike would like to be included in decision making at City Light earlier in the process when their input can shape the outcomes. One idea for improving customer service in this area is to align our customer-facing programs with other City departments to maximize accessibility and minimize confusion in the community. If given a seat at the table, customers can advise on environmental justice work already underway at the community level. This would allow City Light (and other City departments) to focus on finding ways to lift up and support existing grassroots programs.

Business customers shared a strong desire for City Light to be quicker to roll out new incentives for energy efficiency projects. These customers would also like to have a greater voice in determining what the incentives will be. They noted that sometimes the bureaucracy involved in City Light processes prevents customers from getting the help they need in a timely manner. Business customers would like more opportunities to partner with City Light to develop mutually beneficial solutions.

Positive Reaction to Debt Strategy

Overall, stakeholders were pleased and relieved to hear about City Light's plan to control debt and right-size the capital improvement program. They appreciate that City Light leadership understands the need to control costs.

Employee Outreach

In addition to public outreach, City Light leadership presented information about the 2025-2030 Strategic Plan Update to City Light managers and supervisors and to the City Light Employee Advisory Group. A Strategic Plan update was shared with employees in the internal employee newsletter and on the SCL Hub (City Light's internal employee website).

Conclusion and Next Steps

Our outreach efforts have informed the development of the 2025-2030 Strategic Plan Update. Over the next six years, we will continue the conversations that we have started with community-based organizations, customers, and stakeholder groups. Some of the business strategies and programs identified in the 2025-2030 Strategic Plan Update will be multi-year efforts. We anticipate using the feedback we received from our outreach efforts to inform planning and implementation for 2024 and beyond.

APPENDIX

2025-2030 Strategic Plan Update Financial Forecast

EXECUTIVE SUMMARY

This document details the financial assumptions behind the rate path established by City Light's 2025-2030 Strategic Plan Update (the "Plan"). The proposed rate path provides the revenue required to deliver the goals outlined in the Plan.

Average rates are derived by dividing the revenue requirement by retail sales. City Light's revenue requirement is increasing around $77 million (6.1%) per year and retail sales are growing by almost 1% per year.

RATE INCREASE SUMMARY

	2024[1]	2025	2026	2027	2028	2029	2030
Revenue Requirement, $M	$1,091	$1,147	$1,217	$1,291	$1,379	$1,460	$1,555
Annual Increase		5.1%	6.1%	6.0%	6.9%	5.8%	6.5%
Retail Sales GWh	9,099	9,075	9,134	9,225	9,388	9,463	9,602
Annual Change		-0.3%	0.6%	1.0%	1.8%	0.8%	1.5%
Average Rate, ¢/kWh	12.0	12.6	13.3	14.0	14.7	15.4	16.2
Annual Increase (Rate Path)		**5.4%**	**5.4%**	**5.0%**	**5.0%**	**5.0%**	**5.0%**

[1]2024 values are current planning values using current consumption profiles and retail rates (RSA surcharge is excluded).

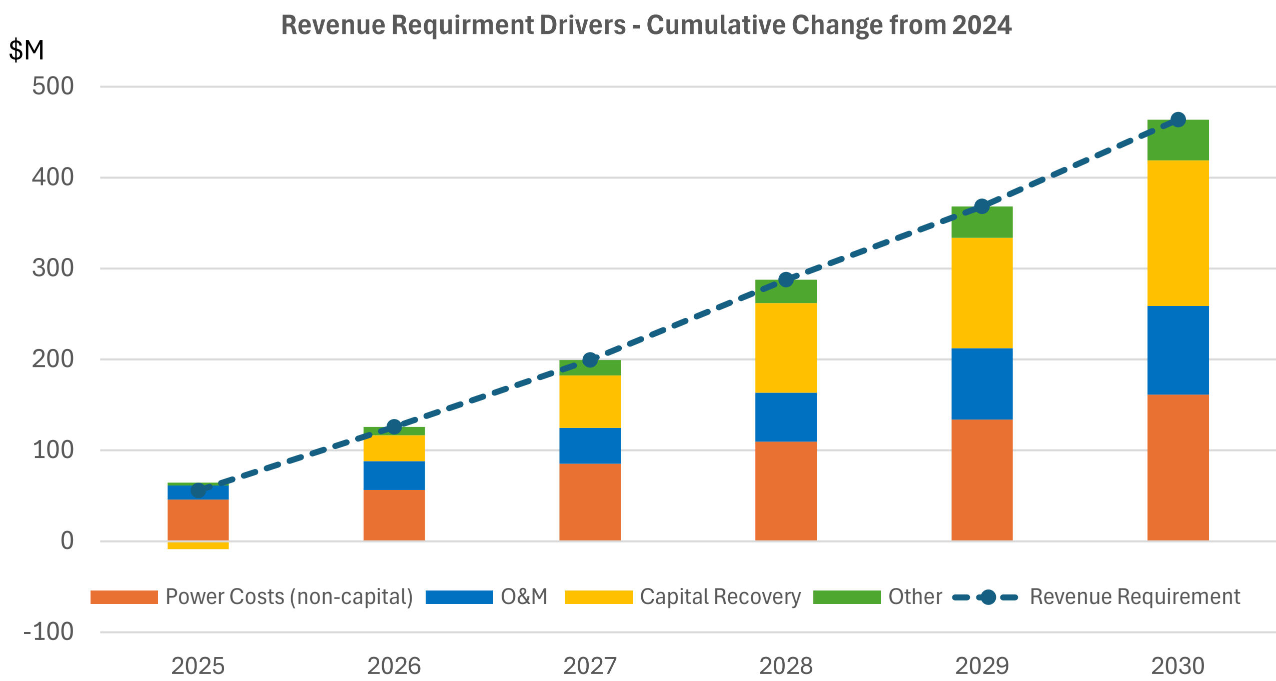
Below is a table of bill impacts assuming each customer receives the annual rate increase noted above and maintains a consistent level of consumption. These impacts are examples only and will change after the cost of service and rate design process is completed for each year. Customers who decrease their consumption through energy efficiency measures will experience smaller bill impacts. Monthly bills for a typical residential customer are expected to grow around $5 every year, making the total annual increase around $60 per year.

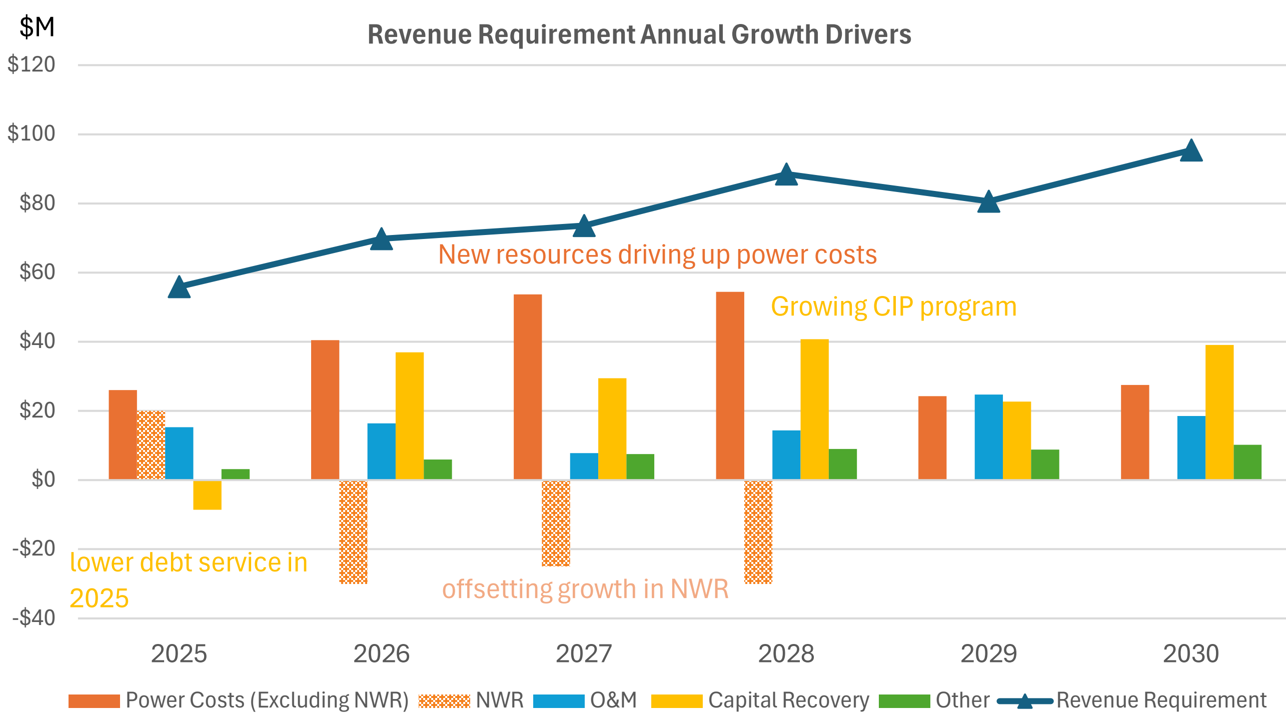
CUSTOMER BILL IMPACT EXAMPLES

	Monthly Bill	Monthly Increase						
	2024	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**AVG**
Residential (630 kWh/month)	$87.99	$4.75	$5.01	$4.89	$5.13	$5.39	$5.66	$5.14
Residential - UDP (60% Discount)	$35.20	$1.90	$2.00	$1.96	$2.05	$2.16	$2.26	$2.06
Small Commercial - Car Wash	$515	$28	$29	$29	$30	$32	$33	$30
Medium Commercial - Retail Store	$8,298	$448	$472	$461	$484	$508	$534	$484
Large Industrial- Cement	$27,060	$1,461	$1,540	$1,503	$1,578	$1,657	$1,740	$1,580
Large Commercial-Hospital	$105,206	$5,681	$5,988	$5,844	$6,136	$6,443	$6,765	$6,143
Large Commercial-Education	$2,311,844	$124,840	$131,581	$128,413	$134,834	$141,576	$148,654	$134,983

The below charts and table summarize City Light's revenue requirements for 2025-2030.

REVENUE REQUIREMENT DRIVERS 2025-2030





RETAIL REVENUE REQUIREMENT SUMMARY

	2024	2025	2026	2027	2028	2029	2030
$, Millions							
Revenue Requirement	$1,091	$1,147	$1,217	$1,291	$1,379	$1,460	$1,555
Capital Recovery							
Debt Service	$246	$241	$252	$241	$258	$267	$264
Revenue Available for Capital & Liquidity*	$168	$164	$190	$230	$254	$268	$310
Operations & Maintenance (O&M)							
2024 O&M Baseline	$372	$372	$372	$372	$372	$372	$372
Inflation	$18	$29	$43	$55	$68	$81	$94
Renewable Energy Credits	$0	$1	$0	-$6	-$6	-$6	-$8
New Programs	$0	$3	$7	$8	$10	$21	$28
Net Power Costs							
New Resources	$0	$8	$49	$99	$147	$147	$164
Other Power and Wheeling Contracts	$260	$275	$274	$277	$282	$305	$311
Net Wholesale Revenue (NWR)	-$45	-$25	-$55	-$80	-$110	-$110	-$110
Power Related Revenues, Net	-$19	-$16	-$16	-$15	-$14	-$13	-$7
Other Revenues/Costs							
Taxes, Payments and Uncollectibles	$136	$140	$144	$153	$163	$174	$185
Miscellaneous Revenue	-$44	-$44	-$43	-$44	-$45	-$47	-$48

**This is the amount of operating revenue that is available to cash fund the capital program or add to overall liquidity*

Drivers of 2025-2030 Revenue Requirements and Rates

1. Capital Recovery
   - Funds historic and future capital investments.
     - Capital requirements expected to increase significantly.
     - 43% of 2025-2030 capital requirement expected to be funded with revenue/operating cash.
     - Also includes cash to support increased liquidity per new debt strategy. (See Appendix A)
   - Debt service expected to have moderate growth as the utility issues debt over time.
     - Payments on new debt exceed payments on retired debt.

2. Operations and Maintenance (O&M)
   - Based on 2024 adopted O&M budget and expected to grow greater than CPI inflation.
   - Increased 2024 labor costs around 11% as a placeholder for anticipated labor costs not included in the Adopted 2024 budget.
     - The 2024 Adopted Budget assumed a cumulative cost of living adjustments (COLA) of around 6.4% for 2023 and 2024.
     - The COLA agreement with the coalition of labor unions was 9.7% cumulative for 2023 and 2024. Many job classes are expected to have additional wage adjustments.
   - Base O&M expected to grow a little under 1% higher than CPI per year.
   - Additional funds to cover additional market-based wage adjustments and support new programs.

3. Net Power Costs
    - Bonneville (BPA) power and transmission costs are the largest single component at over $225 million; BPA power and transmission costs are expected to increase around 3% per year on average.[1]
    - New power resources required to meet resource adequacy targets. Planning assumption is $164 million for roughly 235 aMW 2030 for a combination of solar, wind, battery storage and transmission.
    - NWR planning value decreased to $25 million in 2025 but gradually grows as the utility adds more renewable resources.

4. Other Revenues/Costs[2]
    - Not a large driver, taxes grow proportionally with revenue.

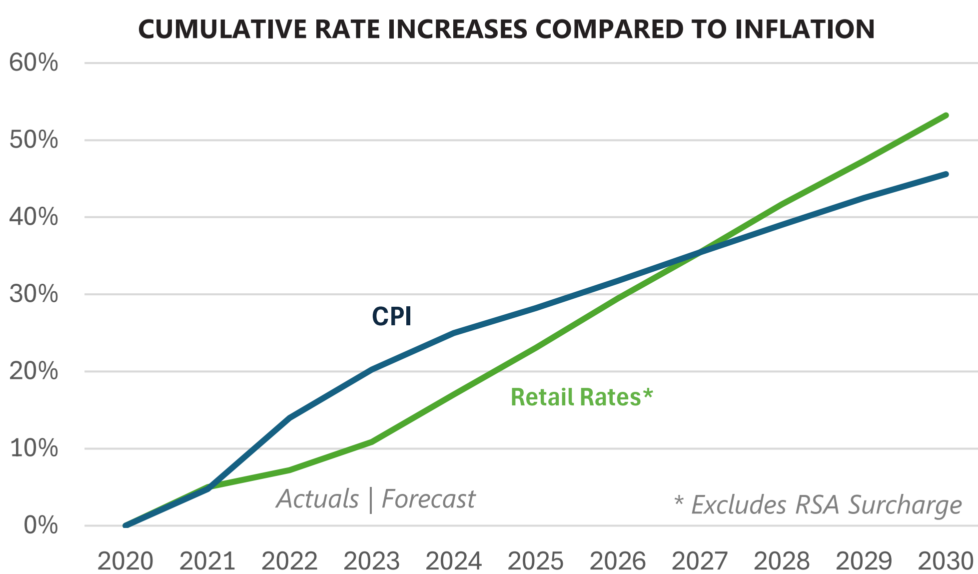
Inflation Outlook

Price inflation continues to put upward pressure on costs. The below table shows recent actual CPI inflation along with a forecast through 2030.

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
CPI*	4.8%	8.8%	5.5%	3.9%	2.6%	2.8%	2.8%	2.6%	2.5%	2.2%

**Consumer Price Index, Source: City of Seattle Office of Economic and Revenue Forecasts*

CPI inflation is not a perfect indicator of total cost pressures faced by an electric utility. However, it can be a useful indicator of how City Light retail rate/bill increases compare with other cost increases faced by customers. The below chart shows that cumulative rate increases from 2020 are expected to be less than CPI inflation through 2027. For the period 2020-2030 retail rate increases are expected to grow around 6% more than CPI inflation.



[1] *Once BPA announces final record of decision for fiscal year 2026 rates, any material cost differences between the planning values and expected BPA bills with final BPA rates will be passed through to City Light customers with the BPA passthrough mechanism.*
[2] *Includes city and state taxes, franchise payments and uncollectible revenue, which tend to grow in proportion to retail revenue. Miscellaneous revenue comes from a variety of fees and service charges, as well as interest earnings.*

INTRODUCTION

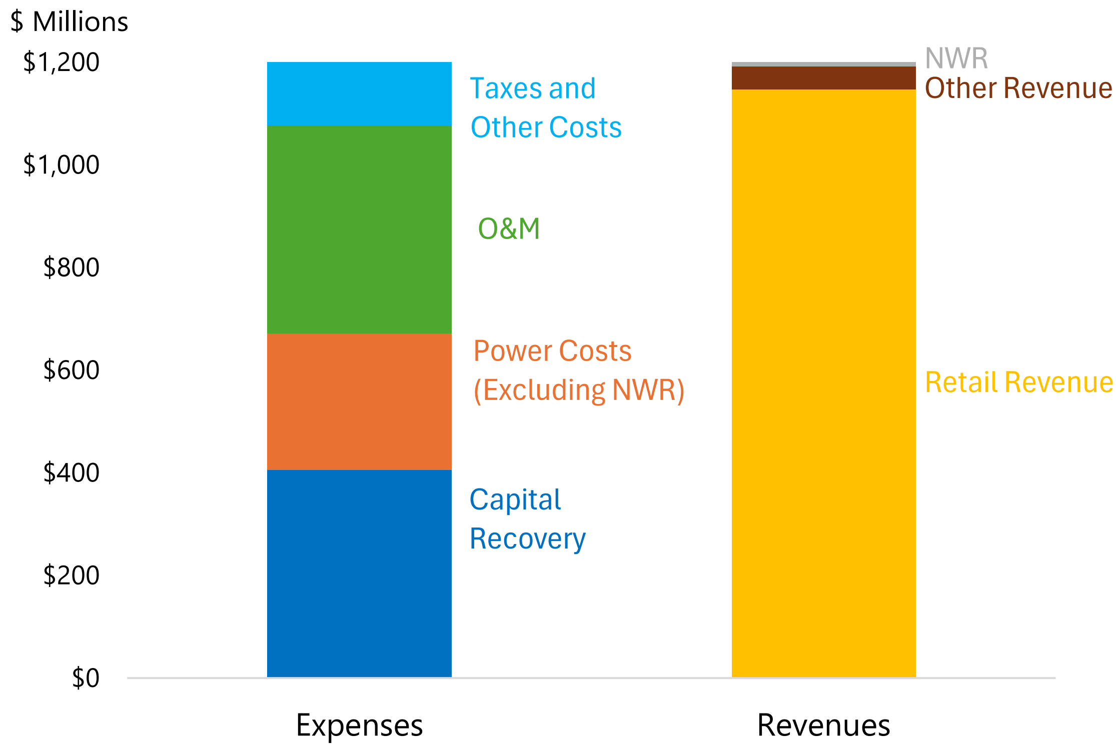
The 2025-2030 Strategic Plan Update (the Plan) builds on the 2023-2028 Strategic Plan approved in July 2023. The Plan extends the horizon an additional two years to 2030.

This document details the assumptions that determine the average retail rate path for the years 2025-2030. Average retail rates are not actual billed rates but are the ratio of the revenue requirement to retail sales and represent the average impact to customer bills, assuming their consumption is constant.

$$average\ rate\left(\frac{\$}{kwh}\right) = \frac{revenue\ requirement\ (\$)}{retail\ sales\ (kwh)}$$

The revenue requirement is the amount of retail revenue that must be collected to balance revenues with expenses, given financial policies. The chart below illustrates how the revenue requirement is sized to meet expenses.

REVENUES AND EXPENSES (2025 FORECAST)



The following is a short description of each primary component of the revenue requirement. These are discussed in detail in the subsequent sections of this document.

Capital Recovery

- Includes the cost of debt-funded capital investments (debt service payments) and funds a portion of the current capital requirement, so they are not all debt financed.
- Per policy, retail revenue should be sized to achieve at or above 1.80 times the annual debt service obligation.
- For this planning horizon, debt coverage is higher than 1.80x every year so as to meet the policy of revenue-funding greater than 40% of the 6-year CIP (See Appendix A).

O&M

- Includes cash-related expenses for all O&M costs excluding taxes, purchased power and wheeling (wheeling is purchased transmission).
- All non-capitalized labor costs are included in this category.
- Includes inflation assumptions, additional program funding requirements, as well as any mitigating cost reductions.

Power, Net

- Purchased power costs and wheeling costs, net of power revenues.
- Includes revenues from surplus power sales net of purchases, also called net wholesale revenue.
- Does not include costs of operating owned generation (e.g. Skagit, Boundary hydro projects), these are part of O&M.

Other

- Includes tax payments, franchise payments and uncollectible revenue, net of miscellaneous revenues.

This document concludes with a short discussion of the retail sales forecast, which is the denominator in the average rate formula.

CAPITAL RECOVERY (CIP AND BONDS)

Capital recovery reflects the cost of capital spending, as recovered over time. Net capital requirements are comprised of the capital improvement program (CIP) less capital contributions, which are payments from outside sources that offset capital expenses.

Net Capital Requirements = CIP – Capital Contributions

Net capital requirements are not a direct component of the revenue requirement but, along with financial policies, determine the amount of debt (bonds) issued and the amount of net capital requirements funded with operating cash. The principal payments on outstanding debt and associated interest expense make up debt service.

Net capital requirements, along with financial policies, also help determine the amount of debt (bonds) issued and the amount of CIP funded with operating revenue. City Light's current financial policies (established by Resolution 31187) calls for setting rates to yield sufficient revenue net of expenses to cover annual debt service obligations by 1.8 times and fund at least 40% of the capital program with operating revenue over a six-year average. Both conditions are met when sizing the revenue requirements for this Plan.

The capital expenditures forecast is based on the 2024-2029 Adopted CIP Plan and adds additional costs to account for increases for labor and material costs, as well as placeholders for new capital cost pressures including relicensing the Skagit hydro generation project and supporting electrification of buildings and transportation. The 2030 CIP is sized based on the size of the projected capital plan in 2028 and 2029. The CIP forecast used to set rates also differs from the CIP Plan (budget) in that the timing of spending is adjusted to reflect projected cash outflows, and amounts are reduced by a 10% assumed under-expenditure.

The next table summarizes capital requirements and funding sources. Capital contributions include third-party funding for capital expenses such as service connections and reimbursements for certain transportation projects and are included in the forecast as a credit to total capital requirements. Capital funding from operations reflects cash drawdowns and may represent net operating proceeds from the current or previous year(s). Bond issuances during the 2025-2030 planning period total around $1.5 billion and will bring total outstanding debt to over $3.5 billion by 2030. The average funding of the 2025-2030 net capital requirements with operating proceeds is 43%, slightly above the 40% target.[3]

CAPITAL REQUIREMENTS AND FUNDING

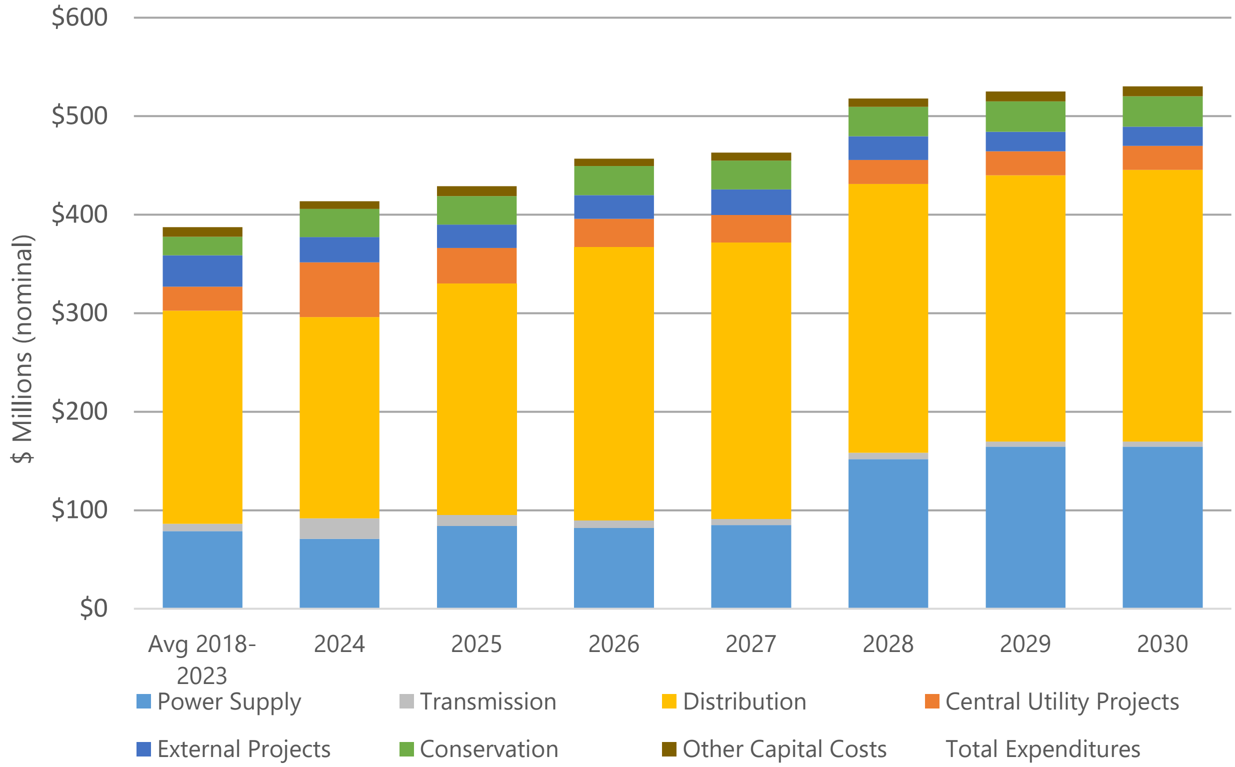
$, Millions	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Capital Requirements							
Adopted CIP	$414	$404	$397	$398	$398	$425	$400
Additions		$25	$60	$65	$120	$100	$130
Total CIP	$414	$429	$457	$463	$518	$525	$530
Capital Contributions	-$64	-$43	-$42	-$44	-$46	-$49	-$49
Total Net Capital Requirements	**$349**	**$385**	**$414**	**$419**	**$472**	**$476**	**$481**
Capital Funding							
Bond Proceeds	$194	$292	$230	$273	$262	$247	$194
Operations	$156	$93	$185	$146	$209	$229	$287
Total	**$349**	**$385**	**$414**	**$419**	**$472**	**$476**	**$481**
Total Debt Outstanding	$2,713	$2,888	$3,017	$3,177	$3,325	$3,467	$3,549

MAJOR CIP PROJECTS INCLUDED IN THE 2024-2029 ADOPTED CIP

Master Project Number and Description	**Six-year Total Spend, $M**
8351: Overhead Equipment Replacements	$269.4
2250: Energy Efficiency	$187.7
8353: Underground Equipment Replacements	$158.5
8333: Distribution System Replacements	$157.2
8366: Medium Overhead and Underground Services	$144.8
8630: Network Systems	$118.0
8370: Network Services	$116.3
8452: Pole Attachments	$108.8
6987: Boundary Licensing Mitigation	$101.4
3133: Environmental Cleanup	$71.3

CAPITAL IMPROVEMENT PLAN

[3] *The average 2025-2030 capital funding from operations is calculated by taking the total 2025-2030 funding from operations ($1,095 million) and dividing by the total 2025-2030 Net Capital Requirements ($2,647 million) to get 41%.*



Capital requirements determine the size of future bond sales and resulting debt service, and the sales are timed to ensure sufficient liquidity to provide at least 150 days of operating cash on hand. The bond size shown below is slightly higher than bond proceeds shown above to account for issue costs and required deposits into the bond reserve fund. All bond issues are assumed to have a 30-year term. Borrowing costs are assumed to be 4.5% in 2024 and 5.0% in 2025-2030. Debt service payments on the 2030 bond issue are assumed to start in 2031, so there is no direct impact on debt service during the planning period from the 2030 debt issue. In efforts to smooth the rate path, debt service coverage is allowed to fluctuate year to year but managed at an overall level that meets the six-year target of 40% or greater capital funding from operations.

BOND SALES AND DEBT SERVICE, $MILLIONS

	Bond Size	2025	2026	2027	2028	2029	2030
Existing[1]		$228	$220	$194	$193	$185	$166
2024 (Aug)[2]	$200	$12	$12	$12	$12	$12	$12
2025 (Aug)[3]	$299		$19	$19	$19	$19	$19
2026 (Aug)[3]	$236			$15	$15	$15	$15
2027 (Aug)[3]	$275				$18	$18	$18
2028 (Aug)[3]	$264					$17	$17
2029 (Aug)[3]	$248						$16
Total Debt Service		$241	$252	$241	$258	$267	$264
Debt Service and Coverage		$476	$515	$549	$595	$622	$667
Debt Service Coverage ratio		1.98	2.04	2.28	2.31	2.33	2.53

[1]*As of December 2023,* [2]*Fixed Rate Issue (30 year/4.5%),* [3]*Fixed Rate Issue (30 year/5.0%)*

OPERATIONS AND MAINTENANCE (O&M)

Operations and maintenance expenses (O&M) are the costs associated with day-to-day operations. O&M is a large and diverse category of costs that includes functions such as power production, distribution and transmission system operation and maintenance, customer services such as billing and meter reading, and administrative support. This forecast defines O&M as excluding purchased power, wheeling and taxes, which are separate categories.

The basis for the 2025-2030 O&M forecast is the 2024 Adopted O&M budget, which is then increased each year to reflect rising costs. An $18 million placeholder was added to the 2024 Adopted Budget to reflect emergent market-based labor cost increases. The annual cost increase is between 3% and 4% per year and is around 0.6% higher than CPI inflation on average. Specific funding in certain areas may change as resource and organizational adjustments are made to deliver on the strategic initiatives and core services.

BUDGET O&M INFLATION BY CATEGORY

$, Millions	2024[1]	2025	2026	2027	2028	2029	2030
Labor	$186	$194	$202	$210	$218	$226	$234
Labor Benefits	$78	$80	$83	$85	$88	$91	$94
Overhead Credit	-$64	-$66	-$69	-$71	-$74	-$77	-$79
Non-Labor	$112	$114	$117	$120	$122	$125	$128
Transfers to City	$90	$92	$96	$99	$102	$105	$108
Total Inflated O&M Budget	$401	$414	$429	$442	$456	$470	$484
Annual Change		$12	$15	$13	$14	$14	$15
Annual Change %		3.1%	3.6%	3.1%	3.1%	3.1%	3.1%

[1] *2024 reflects current forecast*

There are numerous adjustments made to the O&M budget values to produce O&M financial forecast values consistent with financial reporting and policies. These adjustments are outlined in the below table. Proposed incremental program funding in 2025 and 2026 is expected to primarily support increased capabilities around power planning and new markets, power line clearance, cyber security and wildfire management. Additional program funding is included the out years forecast to reflect anticipated emergent cost pressures to be addressed in future budget cycles. The following table details the adjustments and shows the relationship between the inflated O&M budget and the O&M forecast.

O&M ADJUSTMENTS DETAIL

$, Millions	2024	2025	2026	2027	2028	2029	2030
Inflated 2024 Budget	$401	$414	$429	$442	$456	$470	$484
Adjustments							
add I937 RECs (included in PP budget)[1]	$13	$14	$13	$7	$7	$7	$5
add Intertie included in wheeling budget[1]	$1	$1	$1	$1	$1	$1	$1
subtract Engineering OH not included in budget	-$6	-$6	-$7	-$7	-$7	-$7	-$8
Subtract under expenditure assumption[2]	-$20	-$21	-$21	-$22	-$23	-$23	-$24
add New and expanded programs[3]	$0	$3	$7	$8	$10	$21	$28
Total O&M	$390	$405	$422	$429	$444	$468	$487
Adopted 2024 O&M Budget	$372	$372	$372	$372	$372	$372	$372
Changes from 2024							
Inflation	$18	$29	$43	$55	$68	$81	$94
REC Costs	$0	$1	$0	-$6	-$6	-$6	-$8
New and Expanded Programs	$0	$3	$7	$8	$10	$21	$28

[1] *Renewable Energy Credits (RECs) and maintenance costs associated with ownership of the 3rd AC intertie are budgeted as purchased power but recognized as O&M in financial statements. RECs required to meet state regulations are expected to decrease in the out years as City Light brings on more renewable energy.*

[2] *Assumes 5% of the O&M Budget will remain unspent.*

[3] *Includes cost projections for new and expanded programs including power planning and new markets, demand side management programs and support, increases in cyber security and wildfire management and additional placeholder spending for the out years.*

POWER COSTS, NET

This category includes all costs and revenue associated with the wholesale purchase and sale of electricity, wheeling (rented transmission) and associated ancillary services.

Current projections reflect the expiration of the Columbia Basin Hydro contracts in 2024 through 2026 and the acquisition of new resources from 2025 onward. The volume of new resources now projected to be acquired in 2027 and later is significantly higher than it was in the previous Strategic Plan (2023-2028). The resource acquisition plan includes a mix of solar and wind generation, as well as utility scale battery storage. New resource acquisitions may be pursued in greater or lesser quantities than currently planned based on factors including power market outlook, reliability studies and customer programs. The costs of new power resources are partially offset by increases in planning values for Net Wholesale Revenue. Below is a table outlining long-term power and wheeling costs.

LONG-TERM POWER AND WHEELING CONTRACTS

$, Millions	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
BPA Power[1]	$162	$179	$175	$177	$172	$191	$193
BPA Wheeling[2]	$66	$68	$71	$74	$77	$80	$83
New Resources[3]	$0	$8	$49	$99	$147	$147	$164
Lucky Peak[4]	$9	$10	$10	$10	$11	$11	$11
Other Wheeling[5]	$4	$5	$5	$5	$14	$15	$15
Columbia Ridge[6]	$7	$7	$7	$7	$5	$4	$4
King County West Point[6]	$2	$3	$3	$3	$3	$3	$3
Priest Rapids[7]	$1	$1	$1	$1	$1	$1	$1
High Ross[8]	$0	$0	$0	$0	$1	$1	$1
Columbia Basin Hydro[9]	$8	$2	$2	$0	$0	$0	$0
Total LT Power & Wheeling Contracts	$260	$283	$323	$376	$429	$452	$475

[1] Assumes that BPA base power rates increase around 2% on average every year. Changes to purchase volumes, load shaping rates and a 3-year Fiscal Year 2026-2028 BPA rate period make the annual changes to the BPA bill non-uniform.
[2] Assumes BPA wheeling costs increase 4.5% annually on average and purchased transmission volumes gradually grow.
[3] New Resources identified to meet resource adequacy targets in the 2022 Integrated Resource Plan. The planning values include a mix of solar and wind resources including transmission and also utility scale battery storage. The new resources are expected to provide around 234 aMW by 2028.
[4] Reflects production O&M costs growing with inflation.
[5] Forecast assumes Lucky Peak production is brought to load in all years and City Light pays for the transmission.
[6] Cost inflates per contract terms.
[7] Priest Rapids costs are expected to decline because City Light's share of the project will shrink as Grant PUD's load grows.
[8] Expenses for the High Ross contract reflect a small level of O&M costs. City Light stopped making capital payments in 2020.
[9] Reflects City Light's apportioned allotment of production O&M costs, growing with inflation. Contracts start expiring in 2024 and all will expire by 2026.

City Light's largest contracted power purchase is with the Bonneville Power Administration (BPA). BPA power and wheeling bills are complex and based on many factors including City Light load, BPA base rates, BPA's load shaping charges and BPA's rate setting periods. In general, BPA sets rates every two years and new rate periods start in October of odd years. However, BPA will have a 3-year rate period for fiscal years 2026-2028 to align with the start of the new contract period in October 2028. For planning purposes this forecast reflects the same product and contract terms as before in the new contract period. Once BPA announces its record of decision for BPA rates for FY 2026-2028, City Light's 2026 BPA power and transmission bills under the new rates will be compared to the planning values in this report. Any material differences will be automatically implemented in rates per the BPA pass-through mechanism (SMC 21.49.081).

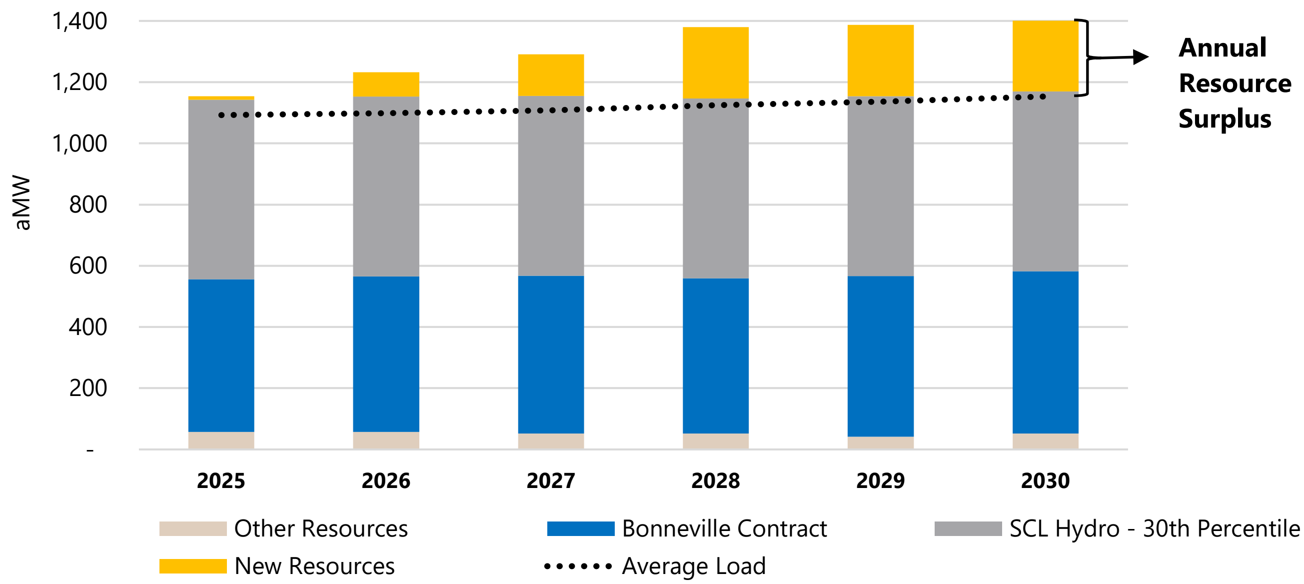
BPA DETAIL

$ Millions	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Block Power Costs	$162	$179	$175	$177	$172	$191	$193
Transmission (Wheeling) Costs	$66	$68	$71	$74	$77	$80	$83
Total BPA Costs	$227	$247	$246	$251	$249	$271	$276
BPA Block Purchases, GWh	4,325	4,363	4,448	4,514	4,459	4,602	4,601
BPA Transmission Purchases, MW	2,241	2,241	2,241	2,241	2,391	2,391	2,391

Long-term purchased power acquisitions are expected to exceed retail load growth, on a volumetric basis. Because new wind and solar resources are intermittent, additional resources will be required to ensure that retail demand can be reliably met under varying conditions. Also, City Light's peak load is projected to increase faster than average load, further increasing firm resources needs to reliably meet load under stress conditions (typically extreme weather events).

The below chart shows City Light's annual resource mix and retail load. Production from owned hydro generation facilities is uncertain and varies significantly year-to-year. For planning purposes, this forecast assumes the 30th percentile of hydro generation from the years 2001-2023. New power resource acquisitions are expected to increase the overall volume of surplus power available to be sold on the wholesale market. Net Wholesale Revenue is the revenue from selling surplus energy, net of purchases for load balancing.

ANNUAL SUPPLY AND DEMAND BALANCE



Planning values for revenues from surplus power sales, or Net Wholesale Revenues (NWR) are summarized in the table below. The NWR value for 2025 is $20M lower than 2024 to reflect recent observed trends towards dry conditions, weather anomalies, and more dynamic market activity, which appear to be deteriorating revenues City Light is able to realize from sales of surplus power. NWR is projected to grow as new resources come online, however given evolving markets and climate change, there is a great deal of risk around this assumption. Variations in surplus electricity sales (NWR) are mitigated by the Rate Stabilization Account (RSA), a cash reserve and rate mechanism designed to insulate customers from wholesale market and weather risk. Any differences between actual NWR and these planning values will be transferred to/from the RSA (SMC 21.49.086).

WHOLESALE REVENUES, NET

$, Millions	2024	2025	2026	2027	2028	2029	2030
NWR	$45	$25	$55	$80	$110	$110	$110

Power related revenues are comprised of long-term power sales, net revenues from sales of ancillary market services, and transmission sales. The following table details these assumptions.

POWER RELATED REVENUES, NET

$, Millions	2024	2025	2026	2027	2028	2029	2030
Power Contracts							
Delivery to Pend Oreille County[1]	$4	$4	$4	$4	$4	$5	$0
Priest Rapids[2]	$5	$1	$1	$1	$1	$0	$0
BPA Credit for South Fork Tolt	$3	$3	$3	$3	$2	$0	$0
Power Marketing Net[3]	$5	$5	$5	$4	$4	$4	$4
Transmission Sales[4]	$3	$3	$3	$3	$3	$3	$3
Total Power Related Revenues, net	**$19**	**$16**	**$16**	**$15**	**$14**	**$13**	**$7**

[1] Current agreement ends in 2029.
[2] Reflects Reasonable Portion contract with Grant PUD. Decreases in the out years to under $500k.
[3] Power marketing revenues (net of purchases) are earned from sales of ancillary services associated with generation and transmission assets, such as reserve capacity sales.
[4] Short-term transmission sales. Includes resale of BPA point-to-point transmission and 3rd AC transmission capacity.

OTHER COSTS AND MISCELLANEOUS REVENUES

This "other" category is made up of costs and revenues such as taxes, interest income and fees for retail services.

OTHER COSTS (TAXES, PAYMENTS AND UNCOLLECTIBLES) DETAIL

$, Millions	2024	2025	2026	2027	2028	2029	2030
City Taxes[1]	$68	$71	$73	$77	$83	$87	$93
State Taxes[2]	$49	$49	$51	$54	$58	$62	$66
Franchise Payments and Other Taxes[3]	$11	$11	$11	$12	$13	$13	$14
Uncollectible Revenues[4]	$8	$9	$9	$10	$10	$11	$12

[1] City taxes, which are 6% of retail revenues, plus some other revenues.
[2] State taxes are 3.8734% of retail revenues, plus some other revenues and contributions.
[3] Payments associated with franchise contracts with the cities of Burien, Lake Forest Park, SeaTac, Shoreline, Tukwila and King County (expected to be approved in 2022). Franchise payments range from 4% to 6% of total retail revenue in each franchise territory. Franchise payments for King County are assumed to start at 8% effective April 2022 and decrease to 6% in 2026 and thereafter. Also includes a utility tax passthrough for Normandy Park and Lake Forest Park and other miscellaneous taxes (e.g., B&O tax) to other jurisdictions where the utility has operations.
[4] Uncollectible revenue is assumed to be 0.75% of retail revenues.

MISCELLANEOUS REVENUE SOURCES DETAIL

$, Millions	2024	2025	2026	2027	2028	2029	2030
Non-Base Rate Retail Revenue[1]	$6	$6	$7	$7	$7	$7	$7
Other Revenue[2]	$21	$22	$22	$23	$23	$24	$24
Suburban Undergrounding[3]	$2	$2	$2	$2	$2	$2	$2
Property Sales[4]	$1	$1	$1	$1	$1	$1	$1
Interest Income[5]	$9	$10	$11	$11	$12	$12	$12
Operating Fees & Grants	$0	$0	$0	$0	$0	$0	$0
Net RSA Transfers[6]	$4	$3	$0	$0	$0	$0	$0
Total Other Revenue Sources	$44	$44	$43	$44	$45	$47	$48

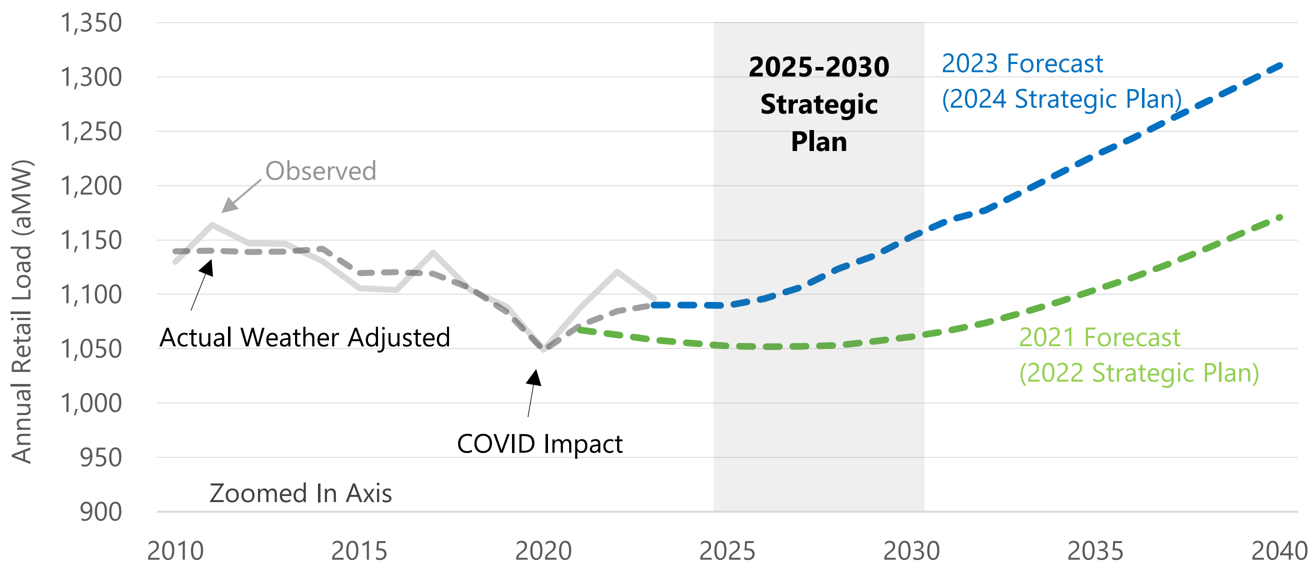
[1] Non-base rate retail revenue includes revenues from retail customers for services or programs which are not dictated by the revenue requirement. Examples include elective green power programs, distribution capacity charges and power factor charges.

[2] Other revenue includes a broad range of income sources, such as late payment fees, payments for damages to property, transmission tower attachments, distribution pole attachments and account change fees. These revenues are expected to increase over time, mostly growing with inflation.
[3] Suburban undergrounding revenues are collected from customers in certain suburban cities for the repayment of discretionary municipal undergrounding of parts of their distribution system.
[4] Property sales based on historical averages. No large sales are assumed in this forecast.
[5] Interest income assumes City Cash Pool cash holdings accrue interest at an annual rate of 1.5%.
[6] RSA transfers are the deposit into the RSA net of any RSA surcharge revenue.

RETAIL SALES

The forecast of retail sales is based on City Light's 2023 official load forecast, which predicts load growth of 5.5% from 2024 to 2030. Energy efficiency investments by both the Utility and customers are expected to continue to reduce sales and outpace new load from economic growth. However, electrification of transportation and buildings is expected to gradually bring on more load, resulting in material load growth during the Strategic Planning period. The amount and timing of new electrification load is very uncertain and will continue to be studied. The below chart shows retail load is expected to be significantly higher than assumed in the previous Strategic Plan.

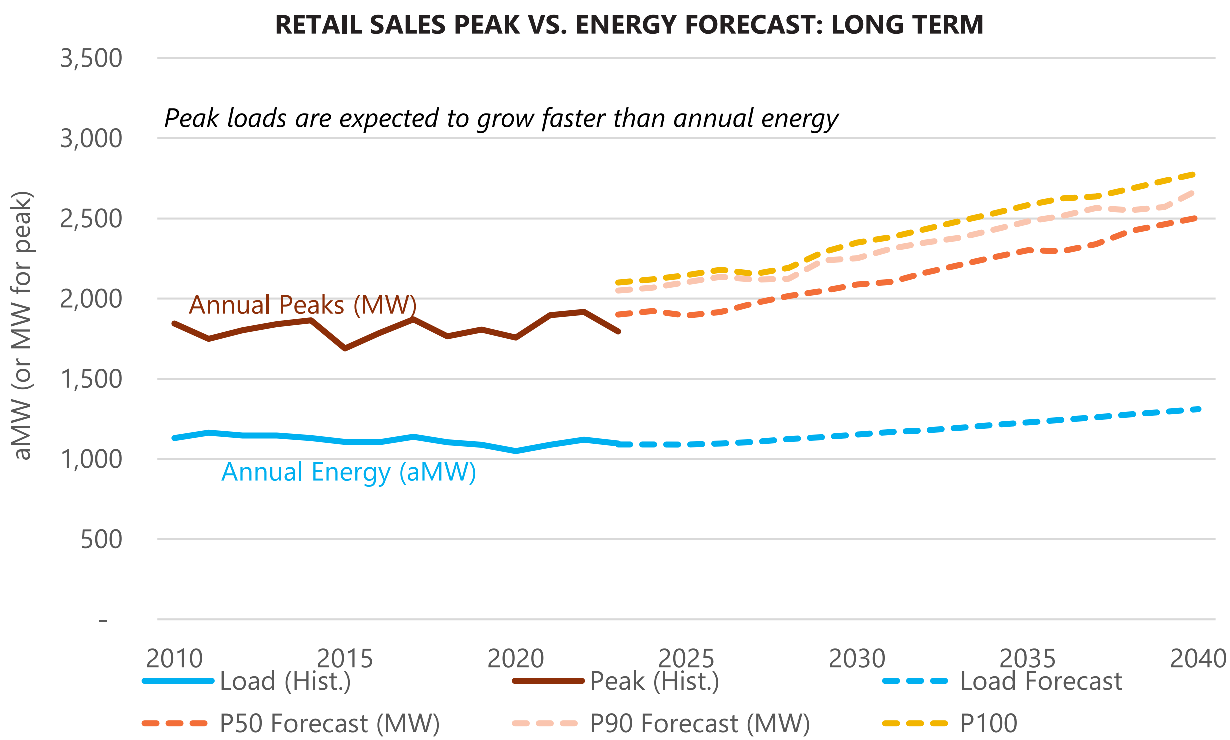
RETAIL LOAD FORECAST: LONG TERM



RETAIL SALES FORECAST BY CUSTOMER CLASS: 2024-2030

GWh	2024	2025	2026	2027	2028	2029	2030
Residential	3,144	3,147	3,161	3,187	3,226	3,234	3,269
Small and Medium	3,557	3,540	3,570	3,613	3,695	3,740	3,809
Large and High Demand	2,398	2,388	2,403	2,425	2,468	2,489	2,523
Total	**9,099**	**9,075**	**9,134**	**9,225**	**9,388**	**9,463**	**9,602**
Annual change							
Residential		0.1%	0.4%	0.8%	1.2%	0.3%	1.1%
Small and Medium		-0.5%	0.8%	1.2%	2.3%	1.2%	1.8%
Large and High Demand		-0.4%	0.6%	0.9%	1.8%	0.9%	1.4%
Total		**-0.3%**	**0.6%**	**1.0%**	**1.8%**	**0.8%**	**1.5%**

As City Light customers continue to electrify vehicles and buildings, peak load is expected to grow faster than average energy consumption. In general, City Light sizes its energy, transmission and distribution requirements to reliably meet peak load and, given the long planning and construction timelines, capacity expansions need to be in place before the load growth arrives. Revenue is primarily recovered by energy sales so higher growth in peak load can add more cost pressure than is brought in by additional retail revenue, driving up average retail rates. The below chart shows the growth in peak load (P50 = 50th percentile, P90 = 90th percentile and P100 = 100th percentile or max load).



APPENDIX A: RATE SETTING TARGETS AND GUIDELINES AND DEBT STRATEGY

Producing and delivering electricity to customers requires a significant amount of physical infrastructure, making electrical utilities among the most capital-intensive industries. Designed to last multiple decades, this infrastructure and its associated installation require large upfront costs. City Light uses long-term debt as a tool to help spread out the cost recovery of these long-lived assets, which enables it to provide lower and more stable retail rates to its customer-owners.

Part of implementing City Light's 2023-2028 Strategic Plan is developing an official strategy for developing an optimal mix of funding for the capital plan and managing the growth in overall debt. As part of this process, in 2023 City Light reviewed its current policies and practices and proposed changes to its rate setting targets and strategies to supplement City Light's existing policies. The additions will provide flexibility when setting rates, ensure adequate annual financial performance and manage the amount of outstanding debt.

Current Financial Policies (established in 2010 by Resolution 31187)

1. *Rate Setting Guideline*: It is the policy of the City of Seattle to set electric rates for the City Light Department at levels sufficient for it to achieve a debt service coverage ratio of 1.8.
2. *Debt Policy*: The City Light Department will manage its capital improvement program so that on average over any given six-year capital improvement program it will fund 40% of the expenditures with cash from operations.

Supplemental Targets and Guidelines

1. Updating the target debt service coverage
   - *at least* 1.80x in any given year and the 6-year rolling average greater than 1.90x.
2. Refining the target for funding of the capital plan from operating cash
   - Six-year average operating cash funding of *net* capital requirements greater than 40%.
3. Introducing a leverage target
   - Debt-to-fixed asset ratio less than 60%.
4. Introducing a liquidity target
   - Days cash on hand is greater than 150 days.
5. Allow for temporary flexibility
   - Suspension of capital funding and leverage targets is permissible for up to 5 years under exceptional circumstances.[4] Requires written letter to City Council stating the current situation and the plan for returning into compliance with all financial policies.

In addition to setting new targets, the 2023 debt strategy also proposed exceeding the debt service coverage and capital funding targets in the 2025-2030 Strategic Plan in order to provide more financial buffer if projected capital costs increase significantly in the future. The financial forecast at the time indicated that the utility would be able to significantly exceed the 40% capital funding from operations target without large rate increases. However, two primary factors have changed in the financial forecast that caused City Light to revisit how much it proposes to exceed the financial targets by.

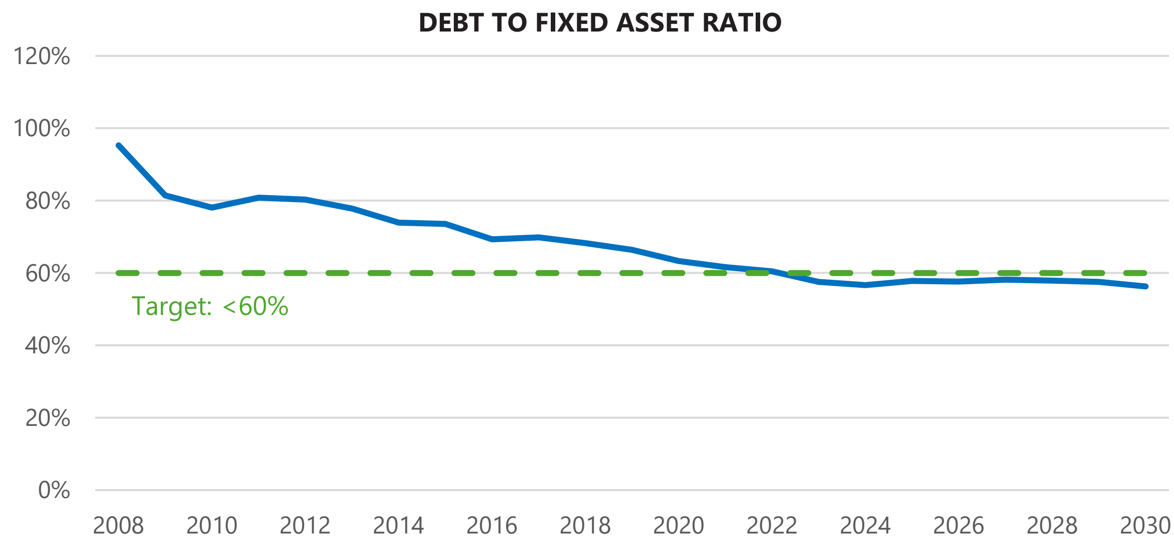
1. Significant increases in the amount and cost of planned new renewable energy resources required to reliably meet load.

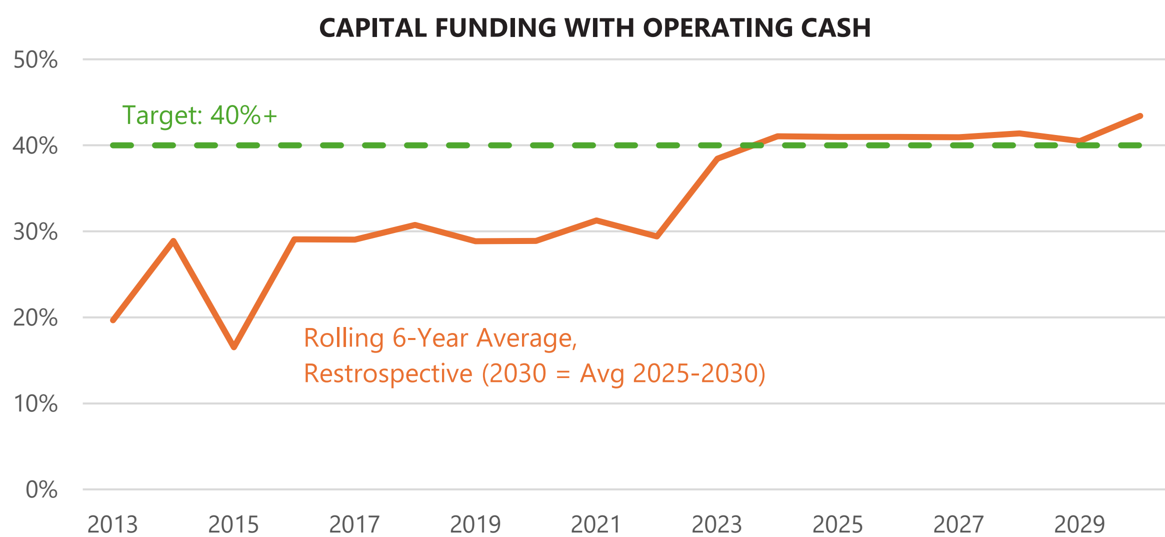
[4] *An example of a possible exceptional circumstance is if City Light decided to build and own a large amount of new renewable power generation over a short period of time, which would require a significant amount of capital.*

2. The expected capital requirements are much larger, primarily from significantly higher anticipated relicensing costs, supporting electrification of buildings and vehicles and higher labor costs.

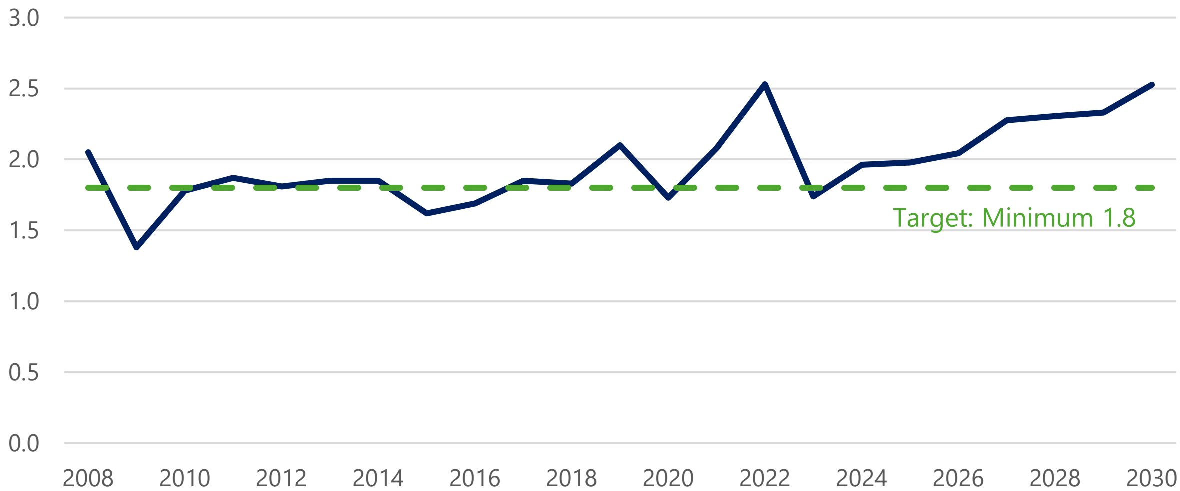
Both factors have added significant rate pressure. The current financial forecast shows City Light only slightly exceeding the capital funding target at 43% from operations, which is achieved with approximately 5% annual rate increases. In many ways the high capital cost scenarios that the utility was looking to buffer against are now the expected case. Increasing the portion of the expected capital requirements higher than 43% would require additional retail rate increases over 5% per year. In evaluating affordability for both current and future customers, City Light proposes that the current 43% is a sufficient trade-off between affordability and debt management. In future Strategic Plan updates, there may be more room to increase the percentage of the capital funding from operations to build more buffer to handle years of large capital outlays.

The below charts show the history and forecast of the financial metrics included in the proposed financial policies. The Revenue Requirements and associated rate path outlined in this report meet all the new proposed financial policies and overall put the utility in a much stronger financial position when compared to the past 20 years.

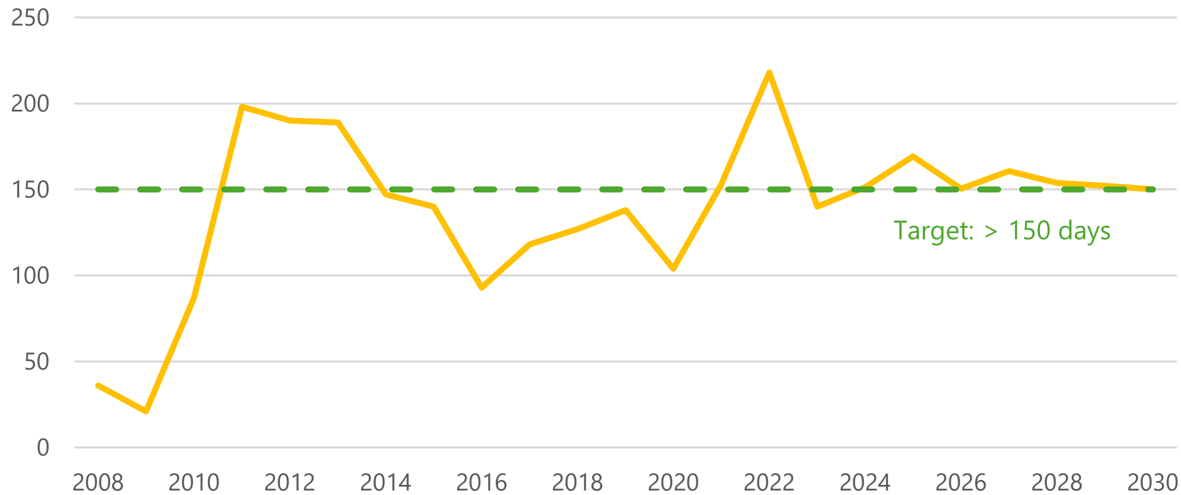




DEBT SERVICE COVERAGE



DAYS CASH ON HAND (LIQUIDITY)



METRIC CALCULATIONS

Debt Service Coverage = (Operating Revenues – Operating Expenses + Cash Adjustments. + City Taxes[5])/ Debt Service

Debt-to-Fixed Asset Ratio = Long-Term Debt / (Plant in Service net of Accumulated Depreciation + Construction Work in Progress)

Capital Funding from Operations = 6 Year Operating Funding / (6 Year CIP – 6 Year Contributions)

Days Cash on Hand = (Operating Account + RSA) / ((Operating Expenses – Depreciation and Amortization[6]) / 365)

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[5] *Because City Light is part of the City of Seattle, taxes paid to the City of Seattle are considered junior lien to debt service and are not included in the taxes category when calculating debt service coverage.*

[6] *Also includes amortization (non-cash) amounts in operating expenses (i.e., hydro relicensing, energy efficiency)*

Seattle City Light

2023 CITY LIGHT DEBT STRATEGY

EXECUTIVE SUMMARY

Part of implementing City Light's 2023-2028 Strategic Plan is developing an official strategy for developing an optimal mix of funding for the capital plan and managing the growth in overall debt. As part of this process, City Light reviewed its current policies and practices and proposes changes to its rate setting targets and strategies. The proposed changes will provide flexibility when setting rates, ensure adequate annual financial performance and manage the amount of outstanding debt. The proposed changes to the rate setting targets and guidelines include:

1. Updating the target debt service coverage
   - *at least* 1.80x in any given year and the 6-year rolling average greater than 1.90x.
2. Refining the target for funding of the capital plan from operating cash
   - Six-year average operating cash funding greater than 40% of *net* capital requirements.
3. Introducing a leverage target
   - Debt-to-fixed asset ratio less than 60%.
4. Introducing a liquidity target
   - Days cash on hand is greater than 150 days.
5. Allow for temporary flexibility
   - suspension of capital funding and leverage targets is permissible for up to 5 years under exceptional circumstances.

The proposed rate setting targets serve as a minimum backstop to control debt. City Light's specific strategy for the next Strategic Planning period (2025-2030) is to exceed these targets when establishing the rate path. Doing so will further decrease City Light's reliance on debt and also provide more financial buffer if projected capital costs increase in the future. Using City Light's current financial forecast and stress tests indicate that City Light can absorb a significant amount of higher capital costs and still meet the proposed financial targets with only a modest impact to rates.

INTRODUCTION

Producing and delivering electricity to customers requires a significant amount of physical infrastructure, making electrical utilities among the most capital-intensive industries. This infrastructure, designed to last multiple decades, and associated installation require large upfront costs. City Light uses long-term debt as a tool to help spread out the cost recovery of these long-lived assets, which enables it to provide lower and more stable retail rates to its customer-owners.

The two primary ways public utilities fund their capital needs is by paying with operating cash or issuing debt. There is no right mix; each utility must determine how it uses debt based on individual factors, and debt practices may change over time. In general, too much reliance on debt can result in increased borrowing costs or prevent access to the bond market. Too little reliance on debt may disproportionally shift cost recovery for long-lived assets to current customers (i.e., higher retail rates in the near term).

City Light currently has some of the highest credit ratings among public utilities (Aa2 Moody's, AA S&P), providing it access to among the lowest available interest rates. The average effective interest rate over the past decade has been around 3.5%. Low borrowing costs can incentivize carrying a slightly higher debt burden, all else equal.

The City of Seattle has a debt policy that governs the use and terms of issuing debt for all City departments, including City Light. One of the main functions of the City's policy is to outline the legal requirements for issuing debt, such as the type of expenses for which debt may be used. The City's policies do not specifically address managing the Utility's overall debt burden. City Light has financial policies that outline targets for setting rates and sizing the capital program that indirectly manage debt. City Light's current specific financial policies call for: (1) setting rates to achieve 1.80x coverage and (2) managing the size of the 6-year capital program so that funding from operations is 40% or greater.

During City Light's 2023-2028 Strategic Planning process the City Light Review Panel encouraged City Light to develop an official strategy to manage the Utility's growing amount of outstanding debt. In response, City Light included developing a debt strategy as part of its business strategy for ensuring financial health and affordability within the Adopted 2023-2028 Strategic Plan.

City Light has reviewed its current policies and practices around debt issuance and while the current financial policies do a reasonable job at managing debt, they can be augmented in a new framework to improve overall debt management. The proposed debt strategy serves as a guideline for managing the overall amount of outstanding debt, as well as the amount of the capital program that's funded with debt. The strategy establishes debt-related metrics and associated targets used to manage debt. It also allows for flexibility in certain circumstances. The debt strategy is not a comprehensive set of financial policies used to put a ceiling on the size of the capital program but is used within the Strategic Planning framework to help guide the use of debt to achieve the desired balance between service levels and affordability for both current and future customers.

This paper outlines City Light's proposed Debt Strategy. First, it identifies and defines debt-related metrics and selects the optimal mix of metrics to manage to. Then it reviews how select metrics compare to peer utilities. Next, it proposes targets and guidelines for the metrics to be used to manage debt. It then provides an example of how the strategy would work with a significantly larger capital program (i.e., stress test). Finally, it lists the next steps forward.

DEBT RELATED METRICS

There are many types of debt-related metrics that provide context for an entity's outstanding debt amount and its general ability to make debt payments in the short and long run. This section describes some of the different categories of debt-related metrics. It also provides City Light's proposal for what primary metric to track and manage to for each category.

Financial Leverage refers to the relative amount of obligation or debt an entity has. A leverage ratio is a measure of financial leverage and provides a relative level of debt when compared to another financial metric. A leverage ratio helps determine if an entity is carrying too much overall debt based on its individual circumstances. It is important to look at outstanding debt relative to other characteristics because it helps provide context for the size of overall debt based on the size of an entity, often in terms of assets and/or revenues.

Common financial leverage metrics include:

1. Debt-to-Assets Ratio = Total Debt / Total Assets

2. Debt-to-Fixed Assets Ratio = Total Debt / Fixed Assets[1]
3. Debt-to-Equity Ratio = Total Debt / Total Equity
4. Debt-to-Capital Ratio = Total Debt / Total (Total Debt + Total Equity)
5. Asset-to-Equity Ratio = Total Assets / Total Equity

Recommendation: City Light proposes to use Debt-to-Fixed Asset Ratio as its primary leverage metric. All leverage metrics convey a slightly different measurement and no single metric is best for all utilities. The debt to fixed asset ratio most closely reflects the amount of outstanding debt relative to the level of infrastructure currently in service. It provides an approximate measure of the proportion of total infrastructure in service that has been funded with debt and ties closely with the associated Capital Funding Target (discussed later in this section). It is also a metric commonly used by rating agencies.

Coverage refers to an entity's ability to pay its financial obligations. A coverage ratio is a measure of available funds to pay its annual debt obligation. In general, a higher coverage ratio indicates a greater ability for an entity to meet its current financial obligations while a lower ratio indicates a lower ability. A few coverage ratios include:

1. Interest coverage ratio: The ability of an entity to pay its annual interest expense (only) on its debt

    Interest Coverage = Net Revenue / interest expense

2. Debt service coverage ratio: The ability of an entity to pay its annual debt obligations, including repayment of both principal and interest

    Debt Service Coverage = Net Revenue / Debt Service

3. Cash coverage ratio: The ability of an entity to pay its annual interest expense with its cash balance

    Cash Coverage = Cash / interest expense

Recommendation: City Light proposes continuing to use debt service coverage ratio as its primary coverage metric. This metric is the mostly widely used in public power and is also the primary coverage metric used by rating agencies.

Liquidity refers to funds that can be made readily available to satisfy ongoing cash flow requirements, including debt. Some common types of liquidity metrics include:

Current Ratio = Current Assets / Current Liabilities

Quick Ratio = (Cash + Accounts Receivables + Marketable Securities) / Current Liabilities

Days Cash on Hand[2] = Unrestricted Cash / ((Annual Operating Expenses – Depreciation) / Days in Year)

Recommendation: City Light proposes to continue to use days cash on hand (DCOH) as a primary liquidity metric since it is the most common liquidity metric used by rating agencies. This metric does not count the City's cash pool that is available to City Light for 90 days in an emergency without legislation and longer with legislation.

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[1] Fixed Assets generally include undepreciated plant. City Light also includes Construction Work in Progress to smooth out the impacts of large projects.
[2] City Light, Moody's and S&P include the RSA as unrestricted cash for the purposes of calculating this metric.

Capital Funding Target measures the percentage of the capital program funded with operating cash. The City of Seattle does its capital planning on a 6-year basis, so this funding target is a 6-year metric that corresponds to the planning timeframe. The measure evaluates how much of the net capital requirements (i.e., the amount City Light is responsible for funding) are funded by operating cash and how much is funded by issuing debt. The capital funding target is closely related to the debt-fixed-asset ratio as they both measure the relative level of debt to the capital.

The calculation is as follows:

Capital Funding = Funding from Operations / (Total Capital Requirements – 3rd Party Capital Contributions)

Summary
City Light's proposed debt-related financial metrics are:

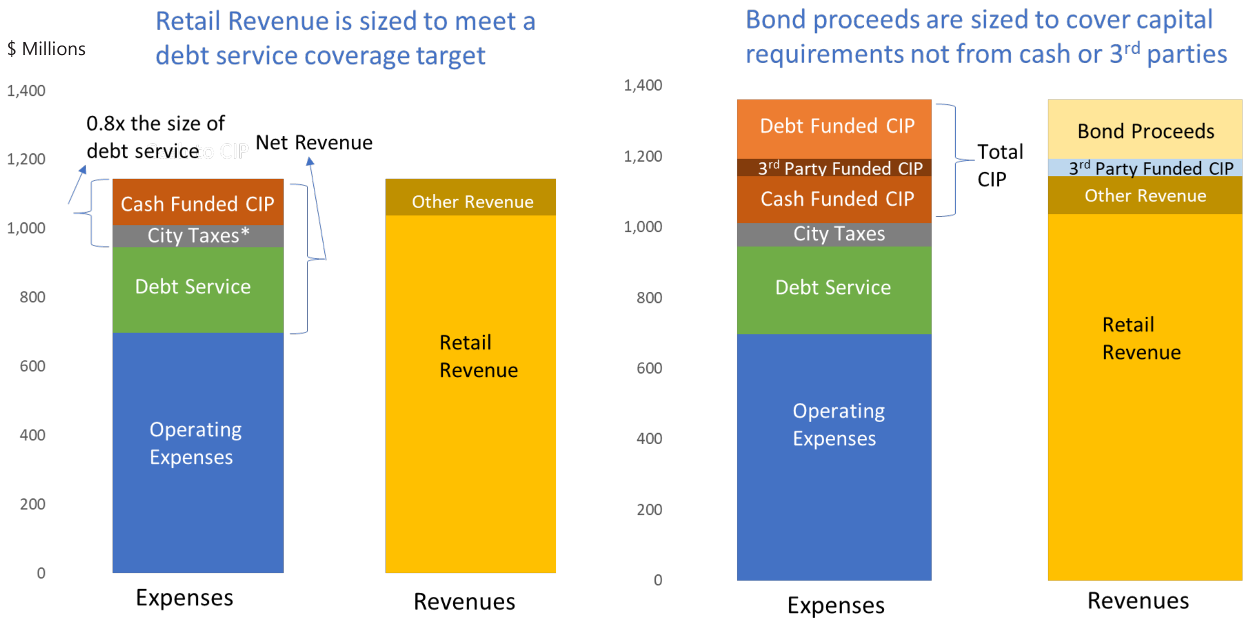
1. Debt Service Coverage
2. Debt-to-fixed assets ratio
3. Days Cash on Hand
4. Percentage of capital funding from operations (over 6 years)

HOW THE PROPOSED FINANCIAL METRICS ARE RELATED

City Light's proposed metrics are inter-related. The most notable relationship is debt service coverage and cash funding of the capital program as the debt service coverage level drives the amount of operating cash available for the capital program. Net Revenue is the difference between operating revenues and operating expenses. After Net Revenue is used to pay debt service and City taxes[3], the residual is used for cash funding of the capital program. Bond proceeds are sized to cover the remainder of capital requirements. Figure 1 shows an example that helps illustrate this this relationship.

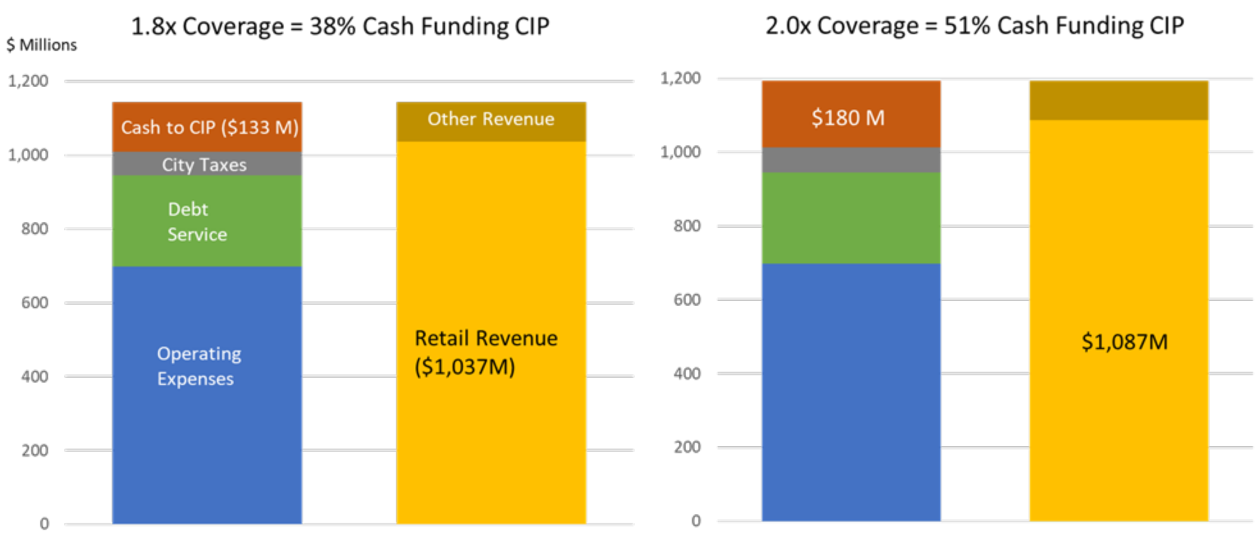
[3] Under City Light's bond ordinances, City taxes have not been included in operating expense for the calculation of debt service coverage since City Light is a department within the City of Seattle and the payments made to the general fund are considered second lien to debt service.

Figure 1



Therefore, higher debt service coverage will increase the amount of operating cash going to the capital program. Figure 2 illustrates how different debt service coverage levels impact the amount of operating cash available for the capital program. Under current conditions 0.2x higher coverage leads to around $50 million more operating cash available for the capital program. This example shows coverage increasing by solely increasing retail revenue (retail rates); however, it is possible to achieve higher coverage with a combination of reductions to operating costs and increases to retail revenue.

Figure 2



In general, higher coverage means less use of debt. It follows that higher coverage, over time, will result in a lower leverage (debt-to-fixed asset ratio). Since the leverage metric is looking at total debt and total fixed assets the impact from higher coverage in any individual year will be small but sustained higher coverage will gradually decrease the debt-to-fixed asset ratio. Maintaining higher cash balances (higher liquidity) will increase the reliance on debt as more operating cash is being held in reserve than put towards the capital program. At current operating expense levels an increase in 50 days cash on hand requires holding on to $106M more cash. This $106M could have been used to reduce the amount of future debt issued. Permanently increasing the DCOH target will result in a one-time impact of increased borrowing.

PEER COMPARIONS OF PROPOSED METRICS

Figure 3 shows comparisons of City Light with 34 peer public utilities for the proposed metrics.[4] The summary includes:

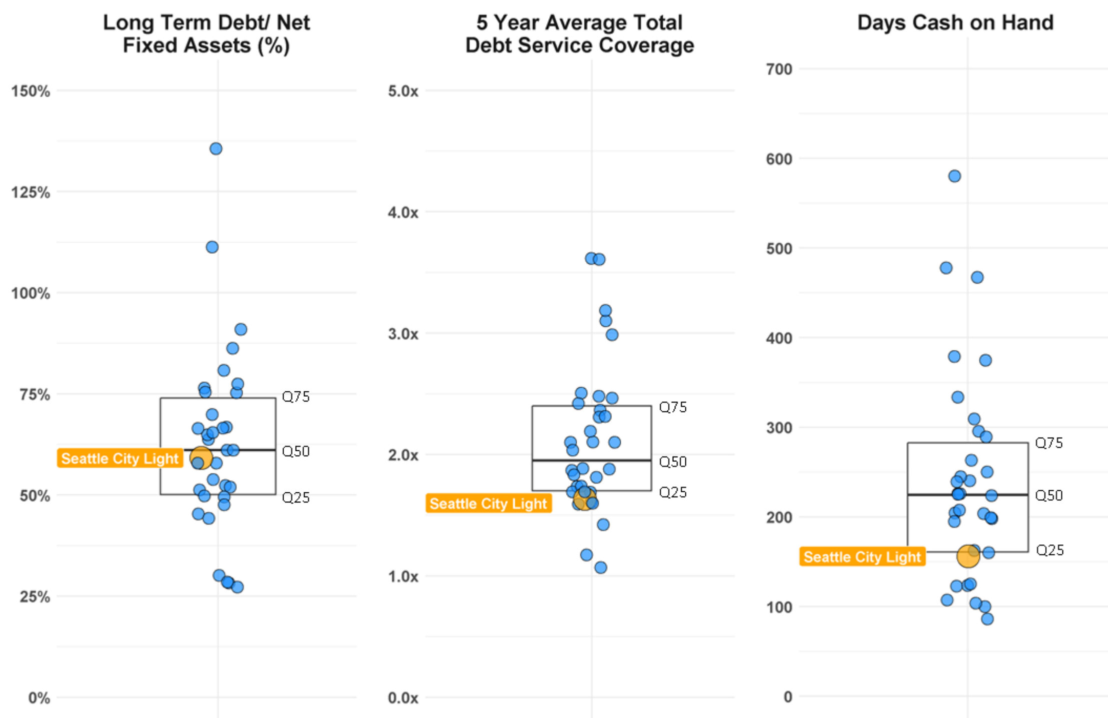
Debt-to-Fixed Assets: City Light is currently close to average compared to other utilities.

Debt Service Coverage: City Light is on the lower side, just under the 25th percentile[5]

Days Cash on Hand: City Light is on the lower side, just under the 25th percentile

More discussion on City Light's relative comparison will be included in the debt strategy proposal section.

Figure 3



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[4] Data from Moody's Municipal Financial Ratio Analysis (MFRA) system as of October 18, 2022. Reflects public utilities with greater than $200M annual O&M expense who generate 20% or more of their own power requirements and rating in the "A" category or higher (34 utilities in total).

[5] Moody's calculation for Total Annual Debt Service Coverage = Net Revenues divided by regular Total Annual Debt Service. This is slightly lower than City Light's calculation of the metric, which removes City taxes when calculating net revenue. For reference removing city taxes from current the debt service coverage calculation adds approximately 0.25x coverage (1.90x is around1.65x with City taxes included in the DSC calculation).

DEBT STRATEGY PROPOSAL

City Light's debt strategy is intended to provide a flexible framework that serves as a guideline for the overall amount of outstanding debt, as well the amount of the capital program that's funded with debt. The strategy establishes metrics and associated minimum targets to help manage debt.

City Light believes it is on the right path of gradually reducing its reliance on debt. In City Light's Adopted 2022-2028 Strategic Plan the rate path was set using a debt service coverage above the existing 1.80x target (six-year average 1.93x). The higher coverage along with managing the size of the capital program resulted in a planning value of funding 40% of the capital program with operating cash. In addition, the current financial outlook has improved since the Adopted 2023-2028 Strategic Plan was developed and current projected capital funding levels from operations are over 40%.

However, while the recent Strategic Plan has put the Utility on the right path, there is no formal debt management strategy that will help guide future plans, ensuring strong financial stewardship for current and future City Light customers.

City Light's proposed debt strategy is summarized as follows:

(1) Update the Debt service coverage target so that rates are set to achieve *at least* 1.80x in any given year and the Utility maintains a 6-year rolling average value greater than 1.90x.
(2) Update Capital Funding target to have greater than 40% of the 6-year average net capital requirements funded with operating cash
    a. Achieved through a combination of capital program prioritization and cost controls and above target debt service coverage, if needed
(3) Introduce a liquidity target of over 150 Days Cash on Hand for setting rates and sizing bond issues.
(4) Introduce a leverage target of less than 60% debt-to-fixed asset ratio.

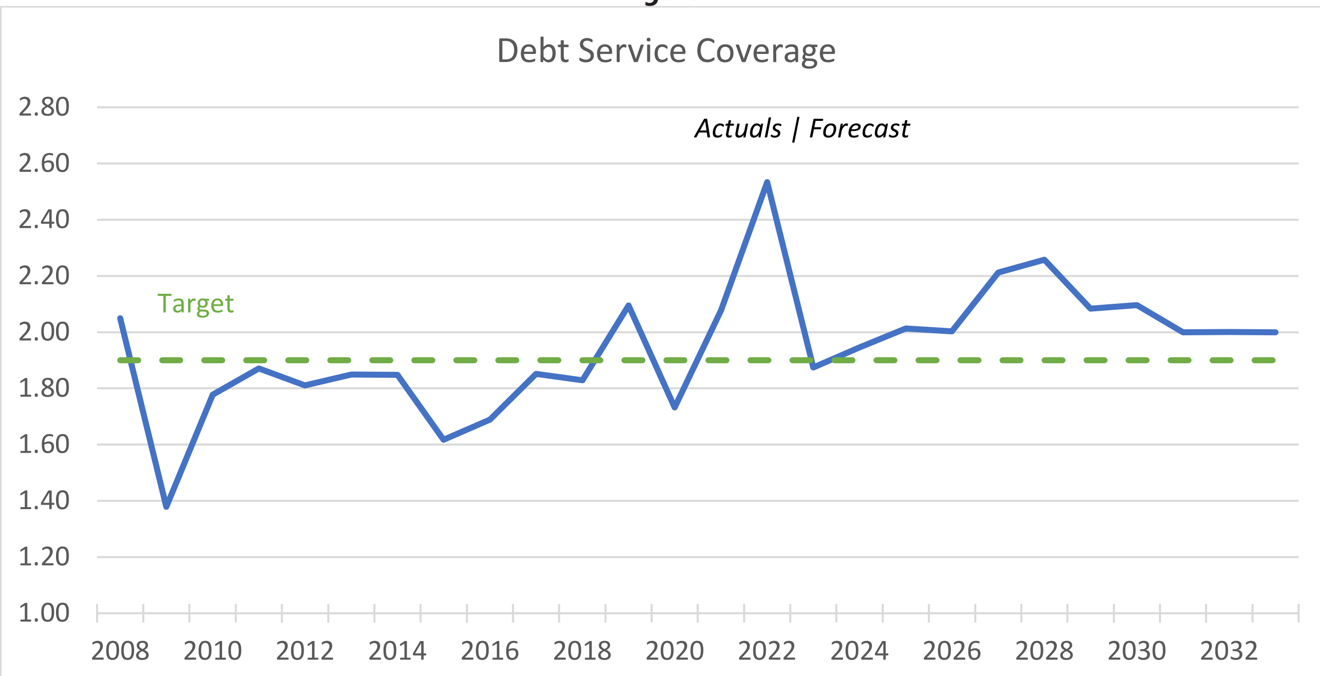
Each component is discussed more below.

Debt Service Coverage. The proposed target of averaging at least 1.90x coverage is a small but material improvement to City Light's current official coverage target of 1.80x each year. In addition, not having a fixed target each year allows for flexibility to smooth out rate impacts over multiple years, including ramping up coverage in anticipation of years of high capital costs. Also, a sustained average coverage of 1.90x is a minimum; actual debt service coverage used to set rates may be higher to meet City Light's other financial policy targets and/or strategic goals.

City Light has relatively low debt service coverage, especially when compared to utilities with similar credit ratings. While City Light's historical coverage is lower than many of its peers, it has many other favorable credit strengths and historically has maintained its high credit rating without ranking in the top half of utilities for debt service coverage (median = 1.95x). In general, higher coverage does mean less debt. However, there is a tradeoff with increasing rates. Every 0.1x increase in coverage means about roughly 2.5% higher customer rates in the near term. The proposed 1.90x or higher coverage on a sustained basis strikes a good balance between financial performance and affordability.

While the policy target is an average of 1.90x per, City Light's specific strategy will be to try to exceed the target and achieve closer to 2.0x coverage on average over the next Strategic Planning period (2025-2030), so long as it can continue to do so with inflation-like rate increases. City Light's annual debt service is currently expected to be relatively flat over the next Strategic Plan period, providing an opportunity for sustained higher coverage along-side modest inflation-like rate increases, all else equal. Figure 4 shows City Light's debt service coverage history and current forecast.

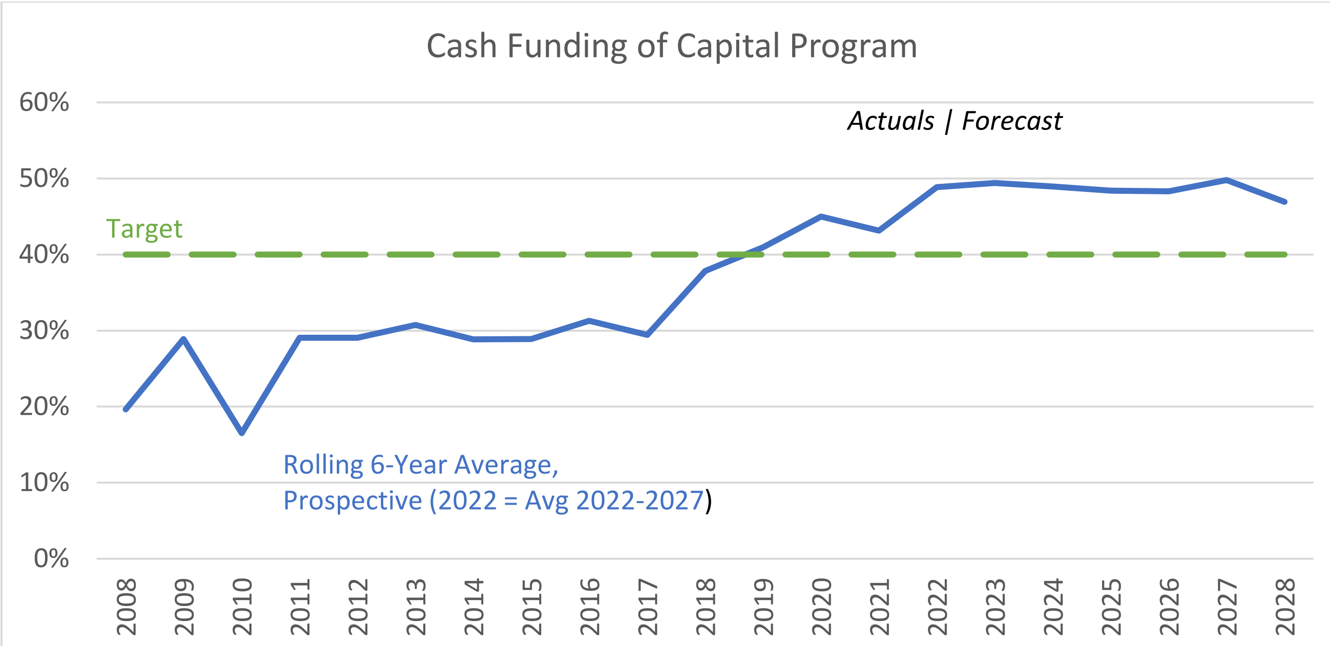
Figure 4



Capital Funding Target. The proposed target is similar to the current policy. The material change is that the funding target is defined as *net* capital requirements, which are after third party contributions. Net capital requirements are the amount of the capital requirements that the Utility is responsible for funding (either through operations or issuing debt). In addition, meeting the 40% funding from operations target can be achieved by a combination of capital program prioritization and cost controls and increasing coverage above the debt service coverage target. The current policy only lists managing the size of the capital program, which may not always be possible given investments required to meet targeted service levels.

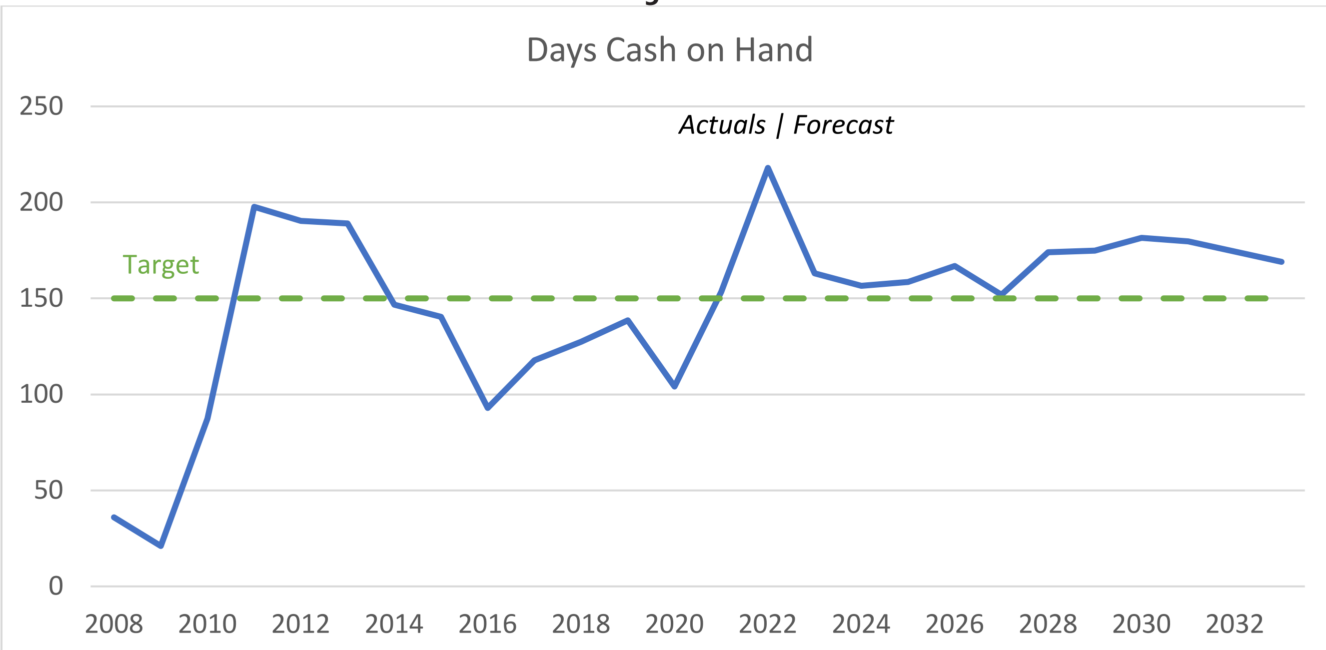
The 40% cash funding policy target is a minimum amount. City Light's strategy will be to achieve greater than 45% in the 2025-2030 Strategic Plan so that the Utility will be able to absorb years of large capital requirements without having to significantly raise rates to meet the 40% minimum funding target. Figure 5 shows City Light's capital funding history and current forecast.

Figure 5



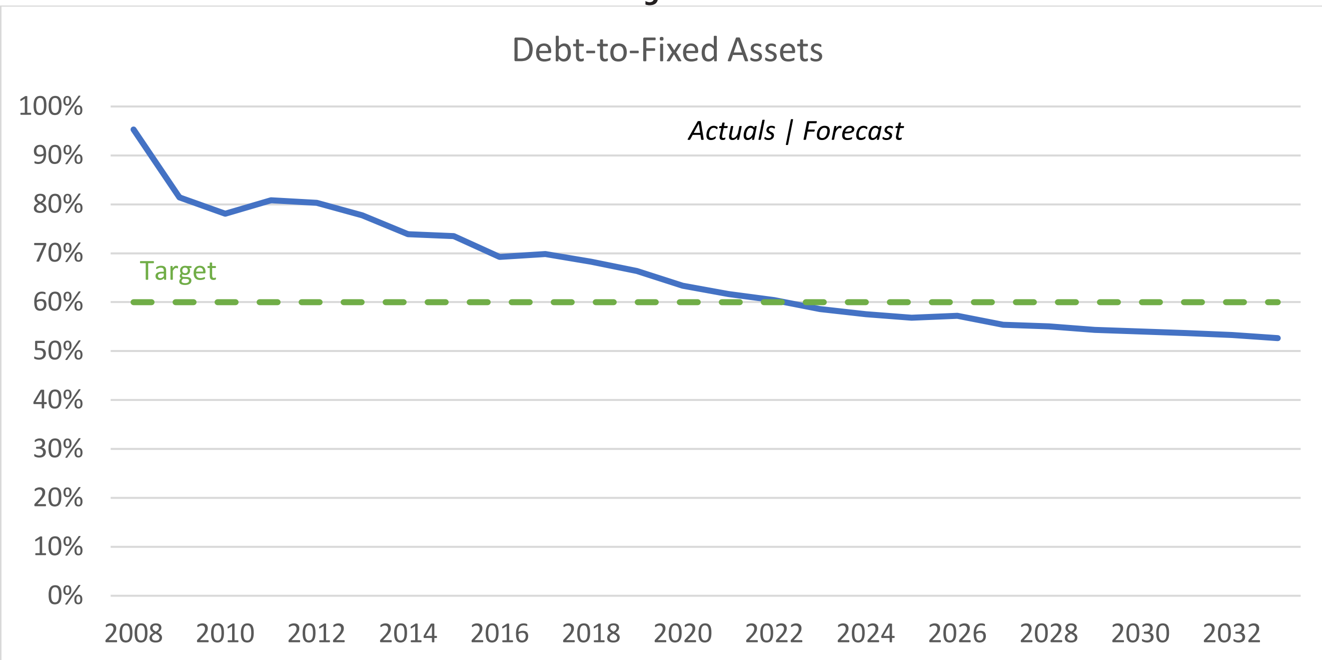
150 Days Cash on Hand. This is a new metric for City Light as the Utility does not currently have an official liquidity target to plan to. Rating agencies typically look at a DCOH metric and note City Light is on the low side compared to similarly-rated utilities. 150 days would be an improvement from historical averages and provide more buffer in years of unexpected cash flow shortages. Since City Light has access to the City's consolidated cash pool in an emergency it doesn't need to carry as much liquidity as other comparably-rated utilities. There is an opportunity cost of carrying higher liquidity as the alternative of reducing debt issuance would result in lower overall costs since long-term borrowing rates are generally higher than short term interest rates. Therefore 150 days will provide sustained improved liquidity but limit the cost of doing so. Figure 6 shows City Light's DCOH history and current forecast.

Figure 6



Debt-to-Fixed Asset Ratio. City Light does not currently have an official leverage metric against which it plans and manages. As mentioned previously, out of all the leverage metrics, the debt-to-fixed assets ratio most closely complements the 40% capital funding target, which is forward-looking. Including a leverage metric as a partner metric to the capital funding target will ensure that the relative amount of debt outstanding is also controlled for. Setting the metric target to less than 60% ensures a manageable debt burden. The strategy will be to gradually bring down the metric below 60% so as to have room to allow it to increase in years of very large capital outlays. City Light has operated with debt-to-fixed capital ratio greater than 60% for many years and still maintained a strong credit rating. However, it will be more prudent to operate with lower debt burden going forward. Figure 7 shows City Light's historical and forecast debt-to-fixed assets ratio

Figure 7



ADDITIONAL FLEXIBILITY

The proposed debt strategy framework allows the Utility to adjust to changing situations. In general, the strategy outlines that City Light should attempt to out-perform each metric target so that it has the required buffer to accommodate years of potential high capital costs without requiring sudden large rate increases to meet its financial targets. However, there could be instances where additional flexibility could be required.

An example of this is if City Light decided to build and own new renewable power generation resources, which would require a significant amount of additional capital. If owning (and debt funding) a generating resource will lead to lower customer rates in the long run the Utility should not avoid ownership because of a large upfront rate increase required to meet financial targets. Therefore, there may be justification to relax the leverage and capital funding targets temporarily, if needed, to allow the Utility to gradually ramp up rates over time.

In most situations the Utility will have sufficient advance notice of new, large capital spending and can gradually increase rates in preparation. However, if there is not enough lead time or if there are other significant rate pressures, the Utility should maintain flexibility to respond to these exceptional circumstances. For example, the Utility might relax its leverage targets for a major one-time expenditure, and would document in writing for City Council what the exceptional circumstance is and how it plans to come back into compliance within a certain number of years and would provide annual reports until compliance is achieved.

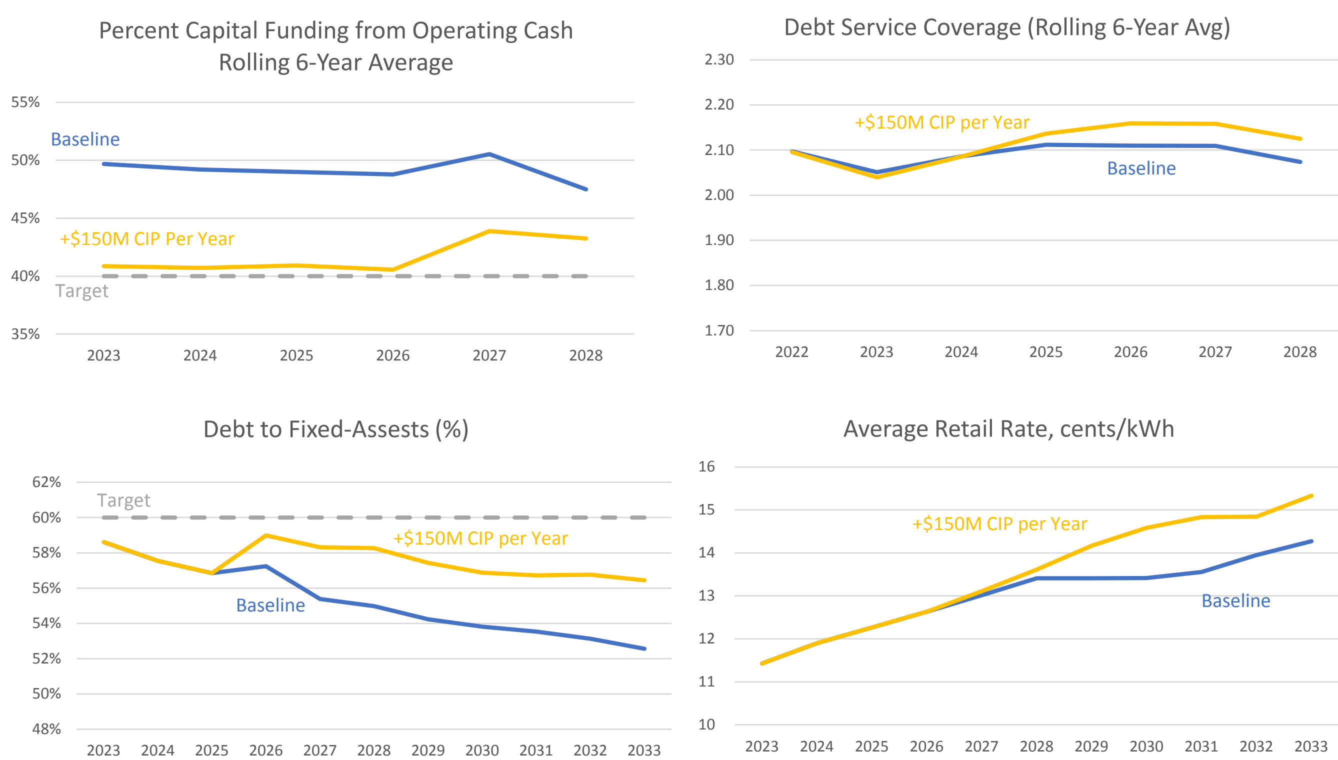
STRESS TEST – SIZE OF THE CAPITAL PROGRAM

A stress test was conducted to see how the size of the capital plan would impact City Light's debt strategy. Under the current financial forecast the Utility is in a strong position to absorb higher capital costs without increasing rates significantly higher than inflation while still meeting the proposed debt targets (>40% capital funding from operations and a debt-fixed-asset ratio <60%).

A number of different capital plan scenarios were run. The most extreme scenario is shared for illustrative purposes. This scenario assumes $150M higher annual capital costs than the baseline each year starting in 2027. For context, $150 million is roughly a third of the size of the baseline (2023-2028 Adopted CIP Plan)

Under the $150M larger capital plan scenario a modest increase in coverage (above baseline) is required to keep the 6-year capital funding target above 40%. The higher coverage along with the higher debt service results in around 8% higher average retail rates over the timeframe. The debt-to-fixed asset ratio was able to remain under the 60% target with no additional intervention above what was required for the 6-year capital funding target. Figure 8 shows the results of the stress test.

Figure 8



DEBT STRATEGY NEXT STEPS

The debt strategy proposes establishing new metrics and targets to provide additional guardrails for prudent debt management. The proposed metrics and targets supplement City Light's existing financial policies. The proposed next steps are as follows:

The new metrics and targets will be used in the development of the 2025-2030 Strategic Plan rate path. Specifically retail revenue should be set at sufficient levels so that:

- Debt service coverage is *at least* 1.80x in any given year and the 6-year rolling average is greater than 1.90x.
- Operating Cash funding is greater than 40% of net capital requirements.
- Days Cash on Hand is greater than 150 days.
- Debt-to-fixed asset ratio is less than 60%.

While the new targets help provide guardrails, the proposed strategies for the specific values used to set retail rates are dynamic and may evolve between Strategic Plan updates based on a variety of factors. The selected metrics will also need to be periodically evaluated and possibly adjusted over time.

Seattle City Light Review Panel
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May 20, 2024

Mayor Bruce Harrell
The City of Seattle
600 Fourth Avenue
P.O. Box 94749
Seattle, WA 98124-4749

RE: City Light Review Panel Comment Letter on Proposed 2025-2030 Seattle City Light Strategic Plan Update

Dear Mayor Harrell:

This letter presents the City Light Review Panel (Panel) comments on the proposed Seattle City Light (City Light) Strategic Plan Update for 2025-2030 (the Plan). Consistent with Ordinance 124740, the Panel has met monthly to track progress on the 2022 Strategic Plan update and provide input to the 2024 Plan. We are pleased to endorse the 2024 Plan and support its adoption as presented.

While the rate path in the Plan is higher than has been proposed in the last few Plans, we believe it to be reasonable and appropriate given the challenges facing the utility. However, there are a number of uncertainties in the forecast, Therefore, if costs decline from the originally projected levels, the Panel would like to revisit the rate path with City Light.

In this endorsement letter, we have noted City Light's recent achievements as well as what is changing for City Light and its customers. We considered these factors carefully when evaluating the Plan.

City Light Achievements

In the past two years, City Light has been focused on the five Strategic Priorities. Several highlights worth noting are below.

To effectively Create Our Energy Future, City Light met the milestones identified in the Transportation Electrification Strategic Investment Plan that was approved by the City Council in 2020. It has installed electric charging infrastructure consisting of 131 Multifamily Level 2 EV chargers and 31 Curbside charging stations. And City Light plans to install public DC Fast Charging projects in Shoreline and Morgan Junction, as well as replacing obsolete public charging systems. Additionally, City Light developed an internal Grid Modernization Plan to understand what investment in transmission and distribution will be needed to maintain system reliability and to serve future load. City Light has also actively participated in a regional planning forum (the Western Resource Adequacy Program) to plan resources for future load growth and more economically dispatch resources across the region.

Taking steps to Improve the Customer Experience, City Light distributed approximately $10.6 million in state pandemic funds to help reduce past-due balances for customers in 2022 and 2023, as well another $3.7 million in Emergency Bil Assistance and Low-Income Home Energy Assistance Program funds. City Light also improved the customer application process for the Utility Assistance Program. And City Light worked on the Time Of Use program which is anticipated to go live in early 2025. With its new Time of Use program, City Light will be able to offer customers more control over energy management.

As part of Develop Workforce and Organizational Agility, City Light launched an organizational change management program to help employees be ready for the future. City Light also continued work on the Utility Technology Roadmap, to right-size and appropriately scale investment in technology initiatives.

Under Ensure Financial Health and Affordability, City Light developed and successfully executed a Road to Recovery strategy that reduced aging receivable risk and stabilized revenues. City Light updated its financial policies with more conservative credit metrics and a debt management strategy that should allow it to maintain its high credit rating and allocate infrastructure costs equitably across current and future customers. These are all material achievements and important to position the Utility to continue to serve the community and its customers.

With respect to We Power, in response to the risk posed to transmission lines and the Skagit facility by wildfire in the North Cascades in summer 2023, City Light completed its Wildfire Risk Reduction Strategy. The strategy focused on the risk of City Light assets causing a wildfire and assessed the risks to City Light assets from a wildfire.

What is Changing for City Light and its Customers?

The Panel's objective has been to understand the fundamental drivers to the Plan's rate path. In short, City Light is facing a significantly different future than two years ago.

Create Our Energy Future

The transition to renewable energy to meet carbon-free goals has increased the cost of power supply. Unfortunately, new clean energy resources are predominantly intermittent energy resources (wind and solar) that are not always available because of weather variability and time of day. At the same time, City Light's load forecast has a steeper demand growth over the next decade, in large part, from building and transportation electrification. The net effect will be much higher costs in the rate path, as City Light plans energy and capacity to serve future load.

City Light is not alone in this, there is industry-wide competition to find cost-effective clean energy resources and peer utilities are undertaking innovative approaches to managing customer load and influencing customer demand. The Panel supports City Light's efforts to invest in technology upgrades and software and labor procurement that will allow the utility to keep pace with its peers. The Panel supports City Light's efforts to explore all options to cost-effectively meet customer demand with energy and capacity. In addition, exploring cost effective energy efficiency, tools to reduce demand will be valuable. The Panel hopes that City Light's time of use program will support demand reduction and distributed resources, such as demand response programs, grid-interactive efficient buildings (GEBs), and virtual power plants (aggregated distributed energy resources supported by customer based solar and batteries).

Improve the Customer Experience

Customers' needs are changing, but in diverse ways. Customers want smarter solutions, personalized service, more information about their energy use, and a credible information source about available programs, solar options, tax incentives, and rebates. Other customers are- or will be- electrifying their homes, as Washington State phases out natural gas space and water heating.

Commercial customers are undergoing building improvements to comply with state and city building standards. And given state laws to phase out vehicle emissions, City Light has new transportation electrification customers in mass transit, port operations, fleet vehicles, and personal vehicles. Therefore, City Light will need to pursue a range of strategies to effectively serve diverse customer interests.

City Light has experienced persistent backlogs in new service connections. Therefore, the Panel supports City Light's outcome to improve predictability of service connection timelines.

To help customers understand the significant changes facing the utility, City Light will need to prioritize customer engagement, through education and outreach services, Additionally, the Panel has asked City Light to focus on equity and affordability for marginalized communities. Average customer income has not been rising as quickly as inflation. The Panel suggests expanded bill assistance, easier access to programs, a tiered income program, and expanded outreach to target customers.

Develop Workforce & Organizational Agility

The Panel urges City Light to continue driving toward a culture of nimbleness. Given the uncertainty of the speed of demand growth and the cost to serve load, SCL must be ready to adapt for unexpected challenges.

The Panel supports the new General Manager's initiative to rebuild the organization. City Light has not been allowed to offer competitive salaries, despite being one of the nation's largest municipal utilities located in a region with a very high cost of living. It will be important to address compensation disparities and consider any cultural issues that may be leading to unwanted attrition and inability to attract new employees. The Panel recommends City Light, and the City address the salary issue to recruit and retain the talented employees needed to fulfill the goals of the Strategic Plan.

Technology continues to evolve rapidly while cyber security risks are escalating. Therefore, the Panel also supports initiatives to invest in workforce development to transition to new technology applications.

Ensure Financial Health & Affordability

City Light emerged from the pandemic in a stable financial position. However, in 2023, City Light drew down the financial reserves in the Rate Stabilization Account (RSA). Low hydro production and extreme weather demand forced City Light to procure short-term power supply when wholesale market prices were at historically elevated levels. In addition to higher power supply costs, City Light faces other cost pressures. City Light managed annual rate increases below the level of inflation in recent years, but that will be difficult to sustain in the future. Material costs - exacerbated by supply chain challenges - are rising faster than the cost of inflation. And interest rates have risen, which increases debt costs as City Light makes investments. Given the lack of RSA reserves and the combined effect of rising power supply and materials costs, the Panel concurs with the conservative planning criteria City Light embedded in the rate path.

City Light has proposed a higher rate path than was proposed in the prior Plan. We believe that the forecast is reasonable, based upon these external factors. However, we would encourage City Light to take steps to minimize as much as feasible the extent of these rate increases going forward. by determining how to best manage its existing and future portfolio of generation assets for energy and capacity needs and by designing rates to incentivize peak demand reduction. The Panel supports City Light's related Market Risk Management initiative in the Plan.

Finally, City Light is submitting a debt strategy as an Appendix to the Strategic Plan. The Panel supports SCL's adoption of the more robust debt management metrics in the debt strategy.

We Power

The policy and regulatory landscape continue to be complicated. And weather events are increasingly severe. Given the regulatory and weather uncertainty, City Light will need to plan investment diligently to not only meet increasing demand, but to make its delivery system more resilient. City Light must preserve its valuable hydro resources that provide critical balancing and storage, further enabling carbon free resources. The Panel supports continued maintenance of the distribution system and City Light's relicensing work on the Skagit hydro project.

It will be important for City Light to plan investment carefully, to avoid potential stranded investment if reality differs from the forecast. A diversified approach to planning and investment is more valuable than ever. The Panel will look to City Light to maintain a rigorous risk-based planning and review process to ensure expenditures deliver value to customers and the community.

Conclusion

In conclusion, City Light is better positioned than many other utilities, but still faces future challenges. Given the uncertainty regarding the speed and pace of demand growth, changing regulatory requirements, new energy resource technologies, and severe weather events, the Panel supports City Light's conservative planning approach. City Light will need to access capital while it carefully managing resources (customers' trust, a committed workforce, its clean energy resources, and its reliable delivery system).

We thank our new General Manager, the previous General Manager, the City Light team, as well as the staff from the City Council and Budget Offices, all of whom support the work of the City Light Review Panel. They are dedicated, knowledgeable, and transparent. Under the direction of the former General Manager, the Panel saw an important cultural shift at the utility toward greater inclusion and transparency with the Panel. We are confident that, under the new General Manager, this will continue.

We would welcome the opportunity to speak with you and the City Council about the recommendations in our letter.

Sincerely,

Members of the City Light Review Panel[1]

Leo Lam
Chair
Panel Position #4
Residential Customer
Representative

Joel Paisner
Co-Chair
Panel Position #9
Suburban Franchise
Representative

Timothy Skeel
Panel Position #1
Economist

[1] We sign this letter in our individual capacities, not as representatives of our employers.

John Putz
Panel Position #2
Financial Analyst

Kerry Meade
Panel Position #3
Non-Profit Energy
Efficiency Advocate

Mikel Hansen
Panel Position #5
Commercial
Customer
Representative

Amy Altchuler
Panel Position #6
Industrial Customer
Representative

Oksana Savolyuk
Panel Position #7
Low Income Customer
Representative

Di Do
Panel Position #8
At-Large Customer
Representative