

July 26, 2024

MEMORANDUM

To: Sustainability, City Light, Arts and Culture Committee
From: Eric McConaghy, Analyst
Subject: City Light's 2025-2030 Strategic Plan Update and Rate Path (RES 32139)

On Friday, August 2, 2024, the Sustainability, City Light, Arts and Culture Committee (Committee) will discuss and possibly vote on a recommendation to Council regarding [Resolution \(RES\) 32139](#). RES 32139 would adopt the [proposed 2025-2030 Strategic Plan Update \(Plan\)](#) for the City Light Department (City Light) and endorse the associated rate path.

During the meeting of the Committee on July 15, Leo Lam, the Chair of the City Light Review Panel (Review Panel), shared the Review Panel's support for the proposed Plan and rate path. Following, City Light briefed the Committee regarding the Plan, and the Committee began discussion.

This memorandum provides high-level takeaways and relevant background information, highlights key aspects of the proposed Plan and the rate path, outlines the Review Panel's comments, describes City Lights' customer assistance programs, and offers next steps.

Take-aways:

- City Light proposes rate increases commensurate with the rising revenue requirement necessary to operate the utility;
- The Review Panel in their [letter to the Mayor and Council](#) support the proposed Plan and rate path;
- If Council adopts Resolution 32139, then the Executive would transmit the 2025-2026 rates ordinance later this summer;
- The actual rate increases for different classes of customers would vary from the average, annual rate increases based on the cost to serve each customer class; and
- Examples of monthly increases over previous years' bills for 2025 and 2026¹ include:
 - Residential – \$3 - 4 and
 - Residential in Utility Discount Program (UDP) – \$1 - 2

¹ Calculated from actual rates based the average rate. Source: City Light's preview of proposed rates [presented to the Review Panel on July 17](#)

Background

City Light follows Council's guidance regarding the frequency of Plan updates and associated rate paths. The Council adopted [RES 31383](#) in 2012 specifying that City Light would update the utility's six-year Plan every two years, adding two years to the Plan, re-evaluating the remaining four years and revising the subsequent, six-year rate path.

The nine-member Review Panel is charged with representing City Light ratepayers and with reviewing and assessing City Light's strategic plans ([Ordinance \(ORD\) 123256](#)). The Review Panel convenes monthly with City Light staff in support of their deliberations. The Review Panel considered City Light's Plan and rate path over a series of meetings leading to their letter recommending adoption of the proposed Plan and endorsement of the rate path. This memo outlines their comments below.

Consistent with RES 31383, Council typically adopts an updated City Light Strategic Plan and associated rate path by resolution in advance of passing an ordinance to establish new retail rates in the Seattle Municipal Code (SMC) for all classes of customers later in the same year. City Light prepares its budget based on the codified rates.

If Council adopts RES 32139, then City Light will seek the Mayor's approval of rates for City Light customers for 2025 and 2026 based on the rate path. The Mayor would transmit the ordinance codifying the rates to Council for consideration.

Council's approval of the rates ordinance would establish the 2025 and 2026 retail rates for all classes of customers identified in [SMC 21.49](#). City Light would apply the new retail rates to billing beginning January 1, 2025.

Council last adopted a Plan and rate path for City Light in 2022 via [Resolution 32056](#). Subsequently, Council established the 2023 and 2024 City Light customer rates via [Ordinance 126677](#).

Key aspects of Plan and Rate Path

City Light's proposed Plan identifies and describes the collection of strategies the utility will pursue to deliver electricity services to its customers. City Light continues to organize the utility's activities described in this updated Plan under five, named business strategies:

- Improve the Customer Experience;
- Create Our Energy Future;
- Develop Workforce and Organizational Agility;
- Ensure Financial Health and Affordability; and
- We Power

The rate path is the year-by-year sequence of average rate increases for all City Light customers for the six-year period of the Plan. City Light proposes a rate path with 5.4 percent increases annually for the first two years and 5 percent annually for the remaining four years to generate the revenue required to pay City Light’s costs to deliver services.

City Light calculates the average rate for² each year as the total revenue required for operation and maintenance and capital improvements (revenue requirement) divided by total retail sales. City Light communicates the change in the average rate from one year to the next in percent change.

As described above, the year-by-year sequence of average percent change in rates for the period of the Plan is known as the rate path. For example, in the adopted 2023 – 2028 rate path the increase in rates from 2024 to 2025 is 3.0 percent. In the proposed 2025 – 2030 rate path, the increase from 2024 to 2025 would increase 5.4 percent instead.

As the revenue requirement increases, so does the average rate unless the increase in retail sales keeps pace with the increase in the revenue requirement. Note also that increased retail sales mean City Light must provide more electricity and this, in turn, can increase the revenue requirement.

In the 2025-2030 Strategic Plan Update Financial Forecast,³ City Light reports that the revenue requirement is increasing around \$77 million (6.1 percent) per year and retail sales are growing by almost 1 percent per year. It follows that City Light is proposing a rate path with increases in average rates for each year.

Table 1. Comparison of City Light’s adopted and proposed rate paths

Rate Paths compared	2023	2024	2025	2026	2027	2028	2029	2030
Adopted 2023-2028 increases	4.5%	4.5%	3.0%	3.0%	3.0%	3.0%	n/a	n/a
Proposed 2025-2030 increases	n/a	n/a	5.4%	5.4%	5.0%	5.0%	5.0%	5.0%

² **Average rate**, in \$ per kilowatt hour (kwh) = **Revenue requirement** in \$ / **retail sales** in kwh

³ Appendix to the 2025 – 2030 Strategic Plan Update.

Table 1 compares the 2023 – 2028 rate path to the proposed 2025 - 2030. The average rate increases for each year in the proposed rate path are greater than those of the adopted 2023 – 2028 rate path. City Light proposes the higher retail rate increases to meet the updated assessment of cost factors including purchased power, operations and maintenance (O&M), capital improvement, and taxes:

- Purchased power: higher wholesale power prices, lower hydroelectric generation, and greater demand (load growth)
- O&M: offering market wages, inflation in costs for materials to maintain infrastructure, and regulatory compliance for conservation and renewable power resources (wind and solar)
- Capital improvement: upfront cash to pay for capital projects and debt service to cover principal and interest payments on bonds
- Taxes: in general, a ten percent revenue tax

Recent Council actions related to ongoing costs for City Light include approval of the Building Emissions Performance Standard (BEPS) via [Ordinance 126959](#) in December 2023 and authorization of the execution of collective bargaining agreements between the City of Seattle and the International Brotherhood of Electrical Worker Local 77 via [Ordinance 127047](#).

Average rates are not actual rates. City Light would translate them from representations of average impact on customers' bills to actual rates in the subsequent rate ordinance after Council endorses the 2025 – 2030 rate path.

Furthermore, City Light's billed rates may also be increased or decreased from the actual (codified rates) by the Rate Stabilization Account (RSA) surcharge⁴ and the Bonneville Power Administration (BPA) cost adjustment⁵. City Light must apply (and remove) the RSA surcharge to customers' bills under financial conditions related to net wholesale revenue as specified in the SMC, see the RSA surcharge discussion below. City Light must pass-through changes in costs of power purchases from BPA as an adjustment to customers' bills, more below.

The purpose of the RSA, established by [Ordinance 121637](#) and most recently amended by [Ordinance 126677](#) in 2022, is generally to cope with fluctuations in City Light's net wholesale revenue. City Light receives net wholesale revenue (NWR) from sales of power in energy markets that is surplus to the needs of City Light's retail customers. In general, City Light's operating and capital budgets rely on retail revenue, wholesale revenue and borrowed money (bond sales).

⁴ [SMC 21.49.086](#)

⁵ [SMC 21.49.081](#)

Whenever NWR during any month of the year falls below the amount allocated in the forecast for that month, then the SMC requires that City Light transfer the amount of the shortfall from the RSA to the Light Fund. If monthly NWR exceeds the forecasted amount, then City Light must transfer the excess from the Light Fund to the RSA.

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

The SMC requires an additional surcharge of 2 percent (for a total of 4 percent) when the RSA is drawn down below \$50 million. As above, the surcharge remains in effect until the amount in the RSA reaches \$100 million. Surcharges may be initiated twice per year, on either January 1 or June 1 and they should be lifted within 90 days of when the month-end balance has reached the relevant threshold.

City Light purchases about a third of its energy from BPA, a federal power-marketing administration, to meet retail customer demand (load). Every other year, BPA updates its rates and purchase amounts. The SMC provides an automatic BPA power cost adjustment (also known as a “pass-through”) that City Light must apply to rates to accommodate changes in BPA costs greater than \$1.5 million over 12 months. City Light sets the amount of the BPA cost adjustment upwards or downwards such that the cost difference, including taxes, is collected from or credited to customers over the subsequent 12-month period from the onset of the rate adjustment.

City Light added the required RSA surcharge and BPA cost adjustment at the same time as the utility implemented new rates on Jan. 1, 2024. In addition to the planned 4.5 percent base rate increase adopted by City Council via [Ordinance 126677](#), the utility applied the two automatic surcharges: 4 percent for the RSA surcharge and just over percent for the BPA pass-through. For City Light’s customers overall, average increase resulting was 9.8 percent.⁶

The resulting bill increase for a typical residential customer was about \$9 per month and about \$4 per month for customers enrolled in the Utility Discount Program (UDP). The BPA pass-through will persist until City implements new rates as anticipated for January 1, 2025. The RSA surcharge will persist until the RSA balance is restored to \$100 million. City Light projects the RSA 2024 end-of-year balance at approximately \$43 million.

⁶ See City Light’s Powerline blogpost: <https://powerlines.seattle.gov/2023/10/12/2024-rate-surcharges/>

City Light Review Panel's Comments

The Review Panel in their letter to the Mayor and Council endorsed the Plan, supported its adoption, and believed the proposed rate path to be "...reasonable and appropriate given the challenges facing (City Light)." The Review Panel acknowledged that City Light is facing increasing costs (outlined above) and its need to adjust rates accordingly.

In their wide-ranging commentary, the Review Panel includes support for City Light's investments in labor and technology to become more cost-effective in managing customer demand (load) and in seeking energy efficiency. They also recognize the utility's need to improve the predictability of timelines for new service connections. And they highlight the need to meet customer's needs related to accelerating shifts to building and transportation electrification.

They also ask City Light to focus on equity and affordability, noting that average customer income has not been rising commensurate with inflation. The Review Panel suggests that City Light pursue "expanded bill assistance, easier access to programs, a tiered income program (for bill assistance), and expanded outreach to target customers."

Customer Assistance

City Light and Seattle Public Utilities (SPU) provide the Utility Discount Program (UDP) to assist qualified low-income residential utility customers with the costs of utility services provided by the City. In addition to UDP support, City Light and SPU offer emergency assistance to help customers pay delinquent bills via their respective Emergency Bill Assistance and Emergency Assistance Program. Both utilities also offer bill payment plan options to help customers budget bill payments and catch-up on past due amounts.

Among the assistance programs, the UDP is the most significant means to assist income-qualifying customers with their utility costs. To be eligible for the UDP, the total household income for the low-income customer must not exceed 70 percent of the current state median income⁷. Enrolled UDP customers receive a 60 percent discount on City Light bills and a 50 percent discount on SPU bills. City Light customers can enroll in utility assistance and other affordability programs at <https://www.seattle.gov/assistance-and-discounts>.

The latest reported data show that UDP enrollment increased from approximately 17,000 in 2014 to over 36,000 in 2024. There are about 82,000 UDP-eligible households within the City of Seattle, and about 126,000 UDP-eligible households within City Light's entire service territory. City Light and SPU may propose raising the threshold on the UDP program to 80 percent of area median income⁸ consistent with energy assistance provisions of Washington State's [Clean Energy Transformation Act](#) as soon as the first quarter of 2025. The change would require Council's approval by ordinance.

⁷ \$85,140 for a family of four in 2024

⁸ \$100,900 for a family of four in 2024

Next Steps

The timing of Council's decision on the proposed Plan and rate path resolution sets up subsequent consideration of the City Light rate ordinance for 2025 and 2026. If the Committee votes on a recommendation on the resolution on August 2, then the Council could take final action on Resolution 32139 as soon as August 13.

cc: Ben Noble, Director
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