

SUMMARY and FISCAL NOTE*

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

1. BILL SUMMARY

Legislation Title: AN ORDINANCE relating to the City Light Department; directing the transfer of certain funds in the Light Fund into the Rate Stabilization Account in 2021; and amending Section 21.49.086 of the Seattle Municipal Code to simplify the operation of the Rate Stabilization Account.

Summary and background of the Legislation:

City Light's Rate Stabilization Account (RSA) is a reserve fund created in 2010 that helps buffer net wholesale revenues (NWR). The amount of NWR City Light earns in any year depends primarily on hydro conditions at its dams and wholesale market prices and both can vary significantly year to year.

A 3.0% RSA surcharge was removed in April 2021 after the RSA reached its target level of \$100 million. In Ordinance 126302, the surcharge was replaced by a permanent 3.0% base rate increase as part of City Light's 2021-2022 rate strategy, smoothing the customer rate path without increasing customer bills in 2021. In early 2021 the outlook for the RSA was strong and no surcharge was expected to come back on within the next year. However, dry hydro conditions, combined with exceptionally hot weather and high wholesale market prices quickly depleted the RSA balance during Q3. By the end of Q3, the RSA balance was \$82 million, which would trigger an automatic 1.5% rate surcharge per SMC 21.49.086.

In keeping with the spirit of Ordinance 126302 - to keep customer bills stable - this legislation would authorize a one-time discretionary deposit into the RSA. City Light anticipates higher than forecast retail revenue in 2021, primarily due to an earlier than expected recovery for electricity demand, power cost savings, and debt service savings from low bond interest rates. 2021's strong retail demand contributed to the lower realized NWR because power was sold retail that would have otherwise been surplus and sold wholesale. City Light can make a deposit to the RSA and still achieve a debt service coverage ratio that would be viewed as prudent by credit rating agencies.

There is precedent for discretionary RSA deposits, City Light has made year-end cash deposits to augment the RSA when it had ample financial cushion in 2011, 2012 and 2013.

In addition, this legislation also updates the RSA mechanism to simplify the surcharge trigger rules both by lowering the trigger balances and by adjusting the surcharge rate. The table below summarizes the proposed changes. City Light believes this amended mechanism will still provide the utility with financial stability while providing customers with more rate certainty. The current \$10 million increments for surcharges result in frequent rate changes which is not

optimal for customers. When the RSA was created in 2010, the expected annual NWR under typical water conditions was well over \$100 million. The current outlook of NWR is expected to be in the \$40 million to \$50 million range, so the magnitude of the volatility is lower. Therefore, the RSA can operate with wider bands and still adequately buffer net wholesale revenue because the overall NWR risk is lower.

Under the proposed changes, the RSA mechanism will operate with fewer changes to customer rates. For example, under the current model, if the RSA balance dipped to as low as \$70 million, three separate surcharges would have been triggered (1.5% triggered at each increment: \$90 million, \$80 million, and again at \$70 million), and a 4.5% surcharge would be in place. Under the proposed model, when the balance dips to \$70 million, only one 2.0% surcharge would be triggered, and it would stay in place until the balance reaches \$100 million. Although the surcharge may need to remain in place longer to replenish the RSA, rate volatility will be greatly reduced while still protecting the overall RSA balance. Rate predictability has consistently been at or near the top of the list of customer preferences in City Light surveys.

	CURRENT	PROPOSED
RSA target balance	\$100M	\$100M
RSA max balance	\$125M	\$125M
Transfer interval	Quarterly	Monthly
Surcharge initiated	Quarterly	Biannually (Jan/Jun)
First surcharge	@ <\$90M 1.5% surcharge	@ <\$75M 2.0% surcharge
Second surcharge	@ <\$80M 3.0% surcharge	@ <\$50M 4.0% surcharge
Third surcharge	@ <\$70M 4.5% surcharge	NA
Surcharge ends when...	RSA balance grows by \$10M	RSA balance reaches \$100M
Council initiates rate review to replenish RSA	@ <\$50M	@ <\$25M
Interest earnings	Transfer to RSA	No administrative requirement

2. CAPITAL IMPROVEMENT PROGRAM

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

3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation amend the Adopted Budget? Yes No

Does the legislation have other financial impacts to The City of Seattle that are not reflected in the above, including direct or indirect, short-term, or long-term costs?
 Revenue from an RSA surcharge is subject to a 6% Seattle utility tax. The dollar impact to the General Fund would depend on the duration of the RSA surcharge.

Is there financial cost or other impacts of *not* implementing the legislation?

There is no direct cost of not implementing the legislation. If not implemented a 1.5% RSA surcharge would be added to customer rates.

3.a. Appropriations

___ This legislation adds, changes, or deletes appropriations.

3.b. Revenues/Reimbursements

___ This legislation adds, changes, or deletes revenues or reimbursements.

Revenue/Reimbursement Notes: This legislation does not impact planned/budgeted revenues. If this legislation wasn't approved and a 1.5% RSA surcharge was implemented, it would provide additional retail revenue of approximately \$3.5 million per quarter until it is removed or changed. Surcharge revenues would be deposited into the RSA.

3.c. Positions

___ This legislation adds, changes, or deletes positions.

4. OTHER IMPLICATIONS

- a. Does this legislation affect any departments besides the originating department?
No
- b. Is a public hearing required for this legislation?
No
- c. Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?
No
- d. Does this legislation affect a piece of property?
No
- e. Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities? What is the Language Access plan for any communications to the public?
NA
- f. **Climate Change Implications**
 - 1. **Emissions: Is this legislation likely to increase or decrease carbon emissions in a material way?**
No

2. Resiliency: Will the action(s) proposed by this legislation increase or decrease Seattle's resiliency (or ability to adapt) to climate change in a material way? If so, explain. If it is likely to decrease resiliency in a material way, describe what will or could be done to mitigate the effects.

No

g. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s)?

NA

List attachments/exhibits below: