

November 30, 2021

## MEMORANDUM

**To:** Transportation and Utilities Committee  
**From:** Eric McConaghy, Analyst  
**Subject:** Council Bill 120233 – Transfer from Light Fund to the Rate Stabilization Account and Amendments to Seattle Municipal Code 21.49.086

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On December 1, 2021, the Transportation and Utilities Committee (Committee) will discuss and possibly vote on [Council Bill \(CB\) 120233](#) that would allow Seattle City Light (City Light) to transfer cash available in the Light Fund to the Rate Stabilization Account (RSA) by year-end. City Light is seeking the authorization to transfer the cash to prevent the automatic addition of a surcharge on customer bills based on the current RSA balance. CB would also amend the regulations governing the RSA provided in [Seattle Municipal Code \(SMC\) 21.49.086](#).

Central Staff has not identified potential amendments to the proposed legislation. This memorandum provides background on the RSA and describes the two parts of the proposed legislation.

### Background

Rate Stabilization Account (RSA): The purpose of the RSA, established by [Ordinance 121637](#), is generally to absorb fluctuations in City Light's annual revenue in any given year due to deviations in net wholesale revenue from the amount assumed in the adopted budget for that year. City Light receives net wholesale revenue 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).

Currently, whenever net wholesale revenue during any given quarter of the year falls below amount allocated in the forecast for that quarter, then SMC 21.49.086 requires that City Light transfer the amount of the shortfall, rounded to the nearest million dollars, from the RSA to the City Light Fund. The SMC states that the transfer will occur within 30 days of the end of the quarter. If quarterly net wholesale revenue exceeds the forecasted amount, then City Light must transfer the difference, rounded to the nearest million dollars from the City Light Fund to the RSA.

The net wholesale revenue yearly forecast is \$60 million in 2021; and it is \$40 million annually in 2022 through 2024. The projected allocation of the yearly forecast by quarter is specified in SMC 21.49.086.D.

SMC 21.49.086.F provides for the replenishment of the RSA with funds from surcharges added to retail rates. The target size of the RSA is no less than \$100 million and the maximum allowed

is \$125 million. The SMC requires City Light to add RSA surcharges of stacking, 1.5 percent increments when the RSA balance drops below specified thresholds.

When the RSA drops below \$90 million, a 1.5 percent RSA surcharge goes into effect until the RSA is replenished to \$100 million. Similarly, when the RSA drops below \$80 million, a 3 percent surcharge in total goes into effect. The surcharge is reduced to 1.5 percent when the RSA reaches \$90 million, and then it is removed altogether when the RSA hits \$100 million.

The required RSA surcharge remains in effect until the amount in the RSA reaches the target threshold amount. City Light must remove the RSA surcharge at the earliest opportunity thereafter.

### **Transfer Cash from Light Fund to RSA**

CB 120233 would allow City Light to transfer cash available in the Light Fund to the RSA to prevent the need to impose a surcharge on customer bills in 2021. City Light reports the RSA balance was \$82 million at the end of the third quarter of 2021 which would trigger the automatic 1.5 percent rate surcharge per SMC 21.49.086 absent some other means to increase the RSA balance to at least \$90 million.

The RSA balance decreased due to drought and commensurate decreases in surplus hydropower available for SCL to sell wholesale. City Light made the required transfers from the RSA to the Light Fund to compensate for under-target wholesale revenues. During the same time, City Light's retail sales increased resulting in a greater than planned balance in the Light Fund.

The transfer would be limited to the amount of cash in the Light Fund available for debt service in 2021 that is in excess of the amount necessary to maintain a debt service coverage ratio of 1.85 (consistent with financial policies that the City adopted through [Resolution 31187](#)) but less than an amount that would cause the RSA balance to exceed \$100 million. City Light says the actual amount of the transfer could range from \$10 million to \$20 million. The debt service coverage ratio is calculated by dividing net revenue (revenue after subtracting operating expenses) by the total of interest and principal payments on debt.

### **Amend the RSA regulations**

CB 120233 would change the RSA regulations in SMC 21.49.086 intended to stabilize customer bills by reducing the frequency of adding and removing RSA surcharges. The City has demonstrated support for the policy of stable customer bills as recently as April 2021 with the approval of [Ordinance 120015](#). The ordinance established City Light retail rate increases in [SMC 21.49](#) and synchronized the 2021 rate increase of 3 percent with the removal of a 3 percent RSA surcharge on April 1, 2021. City Light would have removed the 3 percent surcharge regardless due to the RSA balance, but the timing was intentional to effect no change to retail customers' bills.

Briefly, the proposed amendment would amend SMC 21.49.086 by:

- Initiating surcharges, as necessary, twice a year rather than quarterly;
- Triggering surcharges when the RSA balance dips below \$75 million and below \$50 million instead of at \$90 million, \$80 million, and \$70 million;
- Changing the surcharge increment from 1.5 percent to 2 percent;
- Dropping surcharges only after RSA balance is \$100 million instead of at next-higher balance threshold in \$10 million steps;
- Changing the allocation of the annual wholesale revenue forecast from quarterly to monthly;
- Changing the interval for making transfers between the Light Fund and RSA from quarterly to monthly;
- Extending the deadline from 30 days to 45 days past the end of the quarter to notify the Mayor and the Council of forecast and actual wholesale revenue for the year to date, and of the amount remaining in the RSA; and
- Deleting language dating back to 2010-2012 that deals with the initial funding of the RSA.

CB 120233 would not change the target size nor the maximum amount of the RSA, \$100 million and \$125 million respectively. However, the proposed legislation would reduce the minimum balance that triggers measures to replenish the RSA (in addition to surcharges) from \$50 million to \$25 million. The reduced minimum balance in the proposal is consistent the net wholesale revenue yearly forecast of \$40 million annually beginning in 2022 and extending annually through 2024.

The measures to replenish the RSA in the current code and the proposal include conducting a rate review that would increase rates, reduce City Light spending, or identify additional sources of funding, or a combination of these measures. The proposal would also increase the time allowed to replenish the RSA from the minimum balance from 12 months to 24 months. This change seems reasonable when considered with the change to maintain surcharges until the RSA reaches \$100 million. A surcharge of 4 percent would be applied to customer bills at the \$50 million threshold and would be active during a rate review triggered at the \$25 million threshold.

### **Next Steps**

If the Committee votes to recommend approval of CB 120233 on December 1, 2021, then Council could consider and take final action on the legislation as soon as December 6, 2021.

cc: Esther Handy, Director  
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