SUMMARY and FISCAL NOTE*

Department:	Dept. Contact:	CBO Contact:
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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; authorizing the transfer of certain funds in the Light Fund into the Rate Stabilization Account in 2023; and superseding certain provisions of subsection 21.49.086.E of the Seattle Municipal Code.

Summary and Background of the Legislation:
Seattle City Light (SCL) buys and sells energy on the wholesale market. Because City Light typically has more electricity than needed to meet retail demand, the sum of these sales and purchases is referred to as net wholesale revenue (NWR). The Rate Stabilization Account (RSA) is a cash reserve that buffers NWR, insulating the utility and its retail customers from wholesale power market volatility. When NWR comes in below planned levels, funds are transferred from the RSA into City Light's operating account. Under the current RSA rules adopted in December 2021, if the RSA balance is below $75 million at the end of Q1 or Q3, a 2% surcharge is placed on all retail sales and associated revenue is deposited into the RSA. The surcharge is lifted when the RSA balance returns to its target level of $100 million. The surcharge increases to 4% if the RSA balance is below $50 million at the end of Q1 or Q3.

The RSA is a restricted reserve, and its rules of operation are codified in SMC 21.49.086. Any deposits or withdrawals not determined by the operational rules in the SMC require explicit Council approval.

In November 2022 the RSA balance was over $100 million but has since rapidly declined, resulting in a $45.8 million ending balance in March 2023. With no action, this will trigger a 4% RSA surcharge on customer rates starting June 1, 2023. Contributing factors to the RSA depletion include high winter demand for electricity due to cold temperatures, poor snow and precipitation reducing hydroelectric generation volumes, and sustained high wholesale energy market prices.

While the RSA is designed to be an automatic mechanism, City Light's current strong financial position allows for a discretional transfer(s) into the RSA to reduce or avoid surcharges. City Light had excellent operating performance in 2022 resulting in 2.5x debt service coverage and $140 million higher than planned operating cash balance. The outlook for 2023 is also expected to be strong at around 2.0x debt service coverage.

Strong retail performance correlates with poor wholesale performance; higher retail load reduces the amount of surplus electricity available for wholesale sales and/or increases purchases. In 2022 retail revenue was over $50 million higher than planned and in 2023 current expectations are that retail revenue will be over $20 million higher than planned.

With the utility's strong financial position, imposing a rate surcharge on customers seems unwarranted.

This legislation authorizes City Light to transfer surplus operating funds into the RSA. Immediately after the adoption of this legislation, City Light would make an initial $30 million transfer which, when applied retrospectively, would increase the effective March RSA balance to over the $75 million surcharge threshold and prevent the 4.0% surcharge from being implemented on June 1, 2023.

The ordinance would allow another transfer, should the RSA balance continue to drop as the year unfolds. If, at the end of September, the RSA balance dips below a surcharge trigger, City Light will evaluate its financial position to determine if another RSA transfer is financially feasible. Given the uncertainty of the remainder of the year even with the transfer(s) it is still possible for a surcharge to trigger in September and start January 1, 2024. Restricting the transfer amounts to only surplus revenues above 1.85 debt service coverage allows some buffer so City Light has a strong likelihood of meeting its target of having debt service coverage greater than1.80x.

There is historical precedence for discretional cash transfers to avoid unneeded RSA surcharges. In the past under similar circumstances, City Light made discretional transfers of surplus operating funds into the RSA to replenish the reserve and forestall a surcharge in 2012, 2013 and 2021.

2. CAPITAL IMPROVEMENT PROGRAM

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

3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation amend the Adopted Budget? ___ Yes __x_ 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?
Implementing the legislation and transferring funds into the RSA will have the impact of incrementally increasing the amount of debt issued by the utility in 2023 and 2024, all else being equal. However, even with the proposed transfer, the projected debt issue will still be lower than outlined in City Light's 2023-2028 Strategic Plan.

Are there financial costs or other impacts of *not* implementing the legislation?
Not implementing the legislation would result in rates for City Light customers increasing by 4% in June 2023. The surcharge would be lifted when the RSA balance rises back to $100 million.

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?
N/A

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