Seattle City Light

MEMO

JULY 30, 2024

TO
Council Member Tanya Woo, Chairperson, Sustainability, City Light, Arts & Culture Committee

FROM
Dawn Lindell, General Manager/CEO

SUBJECT
2025-2030 Strategic Plan Update – Response to Council Questions

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Thank you for the opportunity to address your questions for Seattle City Light regarding the 2025-2030 Strategic Plan Update, including the 6-year rate path.

The 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.

QUESTIONS & SEATTLE CITY LIGHT'S RESPONSES

1. Could we have all the key assumptions driving the increased rates compared to other rate scenarios modeled?

There are three key cost assumptions that are driving the need for increased rates compared to previous scenarios: power costs, operating costs, and capital costs.

First, **Power Costs** are increasing. Wholesale prices for electricity have more than doubled compared to the previous decade, and rising power costs are the single largest cost pressure on rates. Seattle City Light is fortunate to get low-cost power from hydroelectric dams and from Bonneville Power Administration, but we need to buy new (and expensive) clean energy resources to reliably meet the growing demand for electricity in Seattle. Our load forecast, which was developed in partnership with industry expert EPRI, captures projected growth from electrification of heating and transportation that in the past was powered by oil or gas. We are projecting that peak load will grow 7% by 2030 and 16% by 2035. To reliably meet customer

demand, new resources are required before this new demand comes online. Below are the new renewable resource assumptions included in the Strategic Plan.

	2025	2026	2027	2028	2029	2030
New Resources, average annual Megawatts (aMW)	11	80	136	233	233	233
New Resources, $ Millions	$8	$49	$99	$147	$147	$164

High power prices, exacerbated by more frequent extreme weather events and pervasive drought conditions, have drained the City Light's Rate Stabilization Account (RSA), our cash reserve for purchasing electricity on the market. The RSA is close to empty, which triggered an automatic 4% rate surcharge that went into effect in January 2024. The increased rates reflect hydro estimates more consistent with the last five years of actual performance in wholesale market purchases/sales, which will help the RSA refill. The 4% surcharge will automatically end when the RSA is refilled to $100M.

The second key assumption is the rising operating costs for **wages and materials**. Wages for many City Light employees fell behind market in the wake of the pandemic. The City has recently reached agreements with labor unions to adjust wages for many employees so that they are more competitive with those offered by other local public utilities like Tacoma Power and Snohomish PUD. This is important because City Light needs to pay a fair market wage to attract and retain staff, particularly in skilled electric utility trades like line workers and system operators. In key segments, City Light's vacancy rates are above 15%, which has an impact on our service levels and response rates. Material costs are also much higher than in the previous rate scenario. Prices for wires, poles, transformers and many other materials needed to maintain the electrical system have grown 2-3x since 2019. For the longer term, investments are needed to bolster our cyber security, make technology upgrades to enable participation in evolving wholesale power markets, and to support customers' interest in electrification.

Finally, City Light must make **investments in electrical infrastructure**, which are expected to increase our Capital Plan and create significant rate pressure in the years beyond this next biennium. Construction costs have risen, driven by higher wages and material costs. A new federal license to operate the Skagit Project is expected to require significant capital investments in the vicinity of that hydroelectric project. On the energy delivery side, new capacity will be needed to meet electrification demands, and City Light is also behind in addressing aging existing assets like its direct buried underground cable.

Further details on assumptions can be found in the appendices of the 2025 – 2030 City Light Strategic Plan Update (linked at the end of this memo)

2. **Could we have a breakdown of each customer category and how the 5.4% increase would impact each of their rates?**

Yes- later this summer, City Light will transmit to City Council for consideration a rate ordinance that sets specific rates for each customer class. While the legislation has not yet been formally transmitted, the rate design work is complete and has been shared with stakeholders, including the City Light Review Panel.

For the residential customer class, rate increases will be lower than the 5.4% system average; they will be 4.3% in 2025 and 4.9% in 2026. Most "General Service" commercial/industrial customer bills will increase between 4% and 7% each year. The below table shows bill increases for example customers.

Example Bill Impacts (monthly)

	2024	2025	2026
	Monthly Bill	Increase	
Residential Customer Examples			
Avg Home - *634 kWh*	$89	$4	$4
Avg Home UDP Participant - *60% discount*	$35	$2	$2
Typical Apartment/Condo - *463 kWh*	$66	$4	$4
High User - *1,180 kWh*	$161	$4	$5
Commercial/Industrial Customer Examples			
Small Commercial - Car Wash	$874	$48	$42
Medium Commercial – Grocery Store	$3,419	$211	$232
Large Industrial- Cement	$25,429	$1,585	$1,718
Large Commercial-Hospital	$147,628	$7,477	$7,622

3. **What alternative funding sources or cost-saving measures have been explored to avoid or minimize rate increases? What are the potential partnerships or grants that have been considered?**

City Light is actively pursuing grant opportunities to offset not only the cost of electrification for our customers, but also to offset costs to replace our aging infrastructure.

Below are ten grants that City Light has been awarded, which will supply funding for various projects and betterments without impacting rates.

Granting entity	What the grant is for	Amount
US Dept of Agriculture	Gorge Debris Boom	$4,125,000
WA Dept of Commerce	Metaline EV Charging Program	$340,000
WA Dept of Commerce	WA Families Clean Energy Credits	$19,143,507
US Dept of Interior National Park Svc	Georgetown Steam Plant	$500,000
Washington State Historical Society	Georgetown Steam Plant	$727,500
Washington State Historical Society	Georgetown Steam Plant	$749,810
WA Dept of Ecology	Lower Duwamish Waterway - Oversight remedial Action	$1,294,000
Dept of Energy	Connected Communities, EPRI	$552,000
FEMA via. WA State Military Department	SCL Cedar River Watershed Defensible Space Phase 1 project	$198,900
WA Dept of Commerce	HEAR Program via. Office of Sustainability and Environment	$3,181,094 *a portion is allocated to City Light*

City Light has submitted five different US Department of Energy Section 247 Hydro Power grant applications, a GRIP (grid resilience and innovation partnerships) grant application for $50M, and a federal Cyber Security grant valued at nearly $500 thousand in collaboration with the DOE and American Public Power Association. The grant awards are scheduled to be announced in the fall.

City Light expects to participate in the State of Washington's carbon market which will be an additional source of revenue to offset the costs of electrification. The amount and timing of these revenues is dependent on the outcome of carbon offset auctions that have yet to be scheduled.

City Light is pursuing partnerships with other City departments to improve our services without increasing costs. One such partnership is a 2-year pilot with the Department of Neighborhoods to do outreach. Through this partnership, we will be working with DON to reach customers with whom we have had little to no contact in the past. Input from a broader range of customers and stakeholders will help us provide services more efficiently and effectively.

4. **What steps are being taken to improve operational efficiency and reduce waste? How will these improvements help in controlling costs and preventing future rate increases?**

City Light never stops looking for opportunities to reduce waste and improve efficiency. Over the past two budget cycles (4 years), we have saved over $41 million by shifting budgeted spending to address areas of risk and high priority needs such as cyber security and physical security, without increasing our overall costs.

In addition to our work in controlling costs via our budgeting, in the last year we achieved $56.4 million in savings from refunds, grants and process improvements. We will continue seeking ways to save ratepayer dollars.

Highlights of 2023 Cost Savings, Recovery & Leveraged Funding	Estimated Savings
BPA Refunded Power Costs	$30.9M
Waterfront Project Savings	$14.0M
Deployment of New Customer Payment Plan Option	$3.0M
DOE Port of Seattle Hydrogen Grant Funding	$1.3M
DOE Affordable Mobility Platform Grant	$1.3M
Transmission Tower Landslide Mitigation Grant	$1.0M
Other (e.g., grants, IT inventory management, member & early bird training discounts, etc.)	$4.9M
Total Savings	**$56.4M**

City Light intends to continue pursuing grant opportunities, and we are bolstering our investment in Lean Six Sigma techniques to improve business processes. We will persist in finding as many ways as we can to make the most of each rate payer dollar.

Finally, many of the costs described in this strategic plan are investments in ensuring City Light customers can access reliable, and low-cost electric services for many years to come. For example, investing in refilling the Rate Stabilization Account helps to keep it strong so it can continue to protect ratepayers from the unavoidable financial risks City Light is exposed to in the wholesale market. Securing new firm energy resources will help reliably meet demand, reduce risk of outages, and avoid cost overruns during extreme weather events. And investing in cyber security measures helps protect our technology assets from financially catastrophic attacks.

5. **What would it take for the RSA surcharge to drop off to help lower rates for customers?**

When the RSA is refilled to $100M, the RSA surcharge will automatically drop off, which will translate to lower rates for all customers. A big determinant of the speed of refill of the RSA is the weather. City Light's hydro dams usually yield the best value when there is ample precipitation and good snowpack accumulation in the winter, which allows the spring runoff to stretch into the summer. This water year has been dry, and the RSA balance has not made progress towards recovery. The next water year starts in September; depending on the hydro and market conditions, it is possible that the RSA surcharge could drop off in 2025, or in 2026, or it may persist longer.

Media Coverage Summary

https://www.komonews.com/news/local/seattle-city-light-plans-54-rate-hike-in-2025-amid-rising-costs-and-demand-seattle-city-councils-sustainability-city-light-arts-culture-committee-prices-wages-inflation-economy-energy-revenue
https://www.seattletimes.com/seattle-news/politics/seattle-city-light-rates-to-increase-as-utility-struggles-with-supply-demand/
https://www.fox13seattle.com/news/seattle-city-light-increase-rates

Attachments:

Utility Discount Program (UDP) Fact Sheet

2025 - 2030 City Light Strategic Plan Update and Financial Forecast