

March 15, 2021

MEMORANDUM

To: Transportation and Utilities Committee
From: Eric McConaghy, Analyst
Subject: City Light 2021 and 2022 Rates – Council Bill 120015

On March 17, the Transportation and Utilities Committee (Committee) will receive a briefing, discuss and may vote on [Council Bill \(CB\) 120015](#) that would increase Seattle City Light (City Light) retail power rates (retail rates) by 3 percent effective April 1, 2021 and further increase the retail power rates by an additional 3.9 percent effective January 1, 2022.

City Light proposes to increase 2021 retail rates at the same time as City Light will be removing the current Rate Stabilization Account (RSA) surcharges from retail customers' bills. City Light has crafted the proposal to result in no net increase in the overall costs that City Lights' retail customers would be required to pay during 2021.

CB 120015 would also increase 2022 retail rates in advance of Council's consideration of City Light's 2022-2026 Strategic Plan. City Light plans to deliver a proposed 2022-2026 Strategic Plan to Council in May 2021. Typically, Council would consider the adoption of new City Light retail rates only after adopting a Strategic Plan and endorsing projections of retail rates for future years. The proposed retail rate increases in CB 120015 are slightly lower for 2021 and the same for 2022 as the rate path for those years in the 2019-2024 Strategic Plan that the Council endorsed in July 2018 through [Resolution 31819](#).

This memorandum provides context for the proposed 2021 and 2022 retail rate changes, describes the typical approach to establishing retail rates, and explains purpose and application of the RSA surcharges. And, the memo presents policy considerations for the Committee. On March 17, The Committee may act on a recommendation to Council on the CB 120015.

Background

Strategic Planning and Rates: The City adopted [Resolution 31383](#) in 2012 specifying that City Light would update the utility's six-year Strategic Plan (Strategic Plan) every two years, adding two years to the Strategic Plan, re-evaluating the remaining four years and revising the subsequent, six-year rate path (rate path). Consistent with Resolution 31383, City Light typically prepares a Strategic Plan in collaboration with the City Light Review Panel every two years and transmits it to the Council for consideration. However, as described in more detail below, the pandemic has altered the normal cadence and timing of updating the Strategic Plan.

After review, Resolution 31383 anticipates that the Council would adopt an updated City Light Strategic Plan and endorse the rate path by resolution before passing an ordinance to establish the retail rates

for the following two years. The ordinance would change the retail rates for all types of customers identified in [Seattle Municipal Code \(SMC\) 21.49](#).

The Council and the Mayor (collectively, the City) last established new retail rates for all types of power service with the approval of [Ordinance 125709](#) in November 2018.¹ The ordinance established the retail rates in the SMC with rates effective on January 1 of 2018, 2019, and 2020. The changes to 2018 rates were approved to reformat the retail rate schedules as tables.

The City approved Ordinance 125709 as consistent with City Light's 2019-2024 Strategic Plan and corresponding rate path. The City had adopted the Strategic Plan and had endorsed the rate path in July 2018 via [Resolution 31819](#).

The widespread disruption of the pandemic in 2020 interrupted the expected update of City Light's Strategic Plan and rate path. In recognition of the economic stresses due to the COVID-19 pandemic, the Executive did not transmit - and Council did not take up - rate setting legislation during 2020.

Via Resolution 31819, the City adopted a rate path that anticipated a rate increase of 3.6 percent in 2021 and 3.9 percent in 2022. The draft 2021-2026 Strategic Plan (shelved March 2020 due to the pandemic) called for rate increases of the same percentages for 2021 and 2022.

SCL plans to transmit a *five-year* Strategic Plan for 2022-2026 for Council's consideration and action in May 2021. In 2022, City Light will transmit the proposed 2023-2028 Strategic Plan to Council, thereby restarting the two-year cycle of strategic planning, rate path determination and rate change adoption.

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).

If net wholesale revenue during any given quarter of the year falls below the forecasted amount, 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. 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;

¹ The City last changed City Light retail rates via [Ordinance 125958](#) in September 2019. This technical ordinance amended the rate for City of Burien (Burien) customers consistent with a franchise agreement with Burien. The ordinance also modified how City Light processes the automatic cost adjustment related to Bonneville Power Association (BPA) costs and specified administrative aspects of rental fees for use of electric vehicle charging stations.

and it is \$40 million annually in 2022 through 2024. The projected distribution 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 no greater than \$125 million. RSA surcharges of stacking, 1.5 percent increments are triggered when the RSA is reduced past thresholds specified in the SMC (at \$90 million, \$80 million, and \$70 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.

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 current balance in the RSA is above \$100 million; this means that City Light must remove the 3 percent surcharge at the earliest opportunity. The current balance grew to this level due to revenue from the RSA surcharge and higher-than-forecast wholesale revenues in recent months. Higher wholesale revenues have resulted from greater-than-expected surplus power that City Light sells in the wholesale markets. City Light attributes the power surplus available to the levels of precipitation fueling City Light’s hydro plant power generation and the decrease in retail demand due to the economic impacts of the pandemic.

Policy considerations

Independent of Council’s action on CB 120015, City Light customers will experience reductions to their bills when City Light acts to remove the 3 percent RSA surcharge. Customers’ bills would be greater in 2021 after April 1 with the passing of CB 120015 than they would be otherwise. Table 1, below, illustrates the effect of not passing and passing CB 120015 for an average, monthly household bill.

Table 1: Illustrative Example

	1. March 1, 2021 Bill	2. April 1, 2021 Bill Assuming CB 120015 Does Not Pass ("No Action")	3. April 1, 2021 Bill Assuming CB 120015 Passes
Retail Rates	\$75.00	\$75.00	\$77.25
RSA Surcharge	\$2.25	-	-
Total Bill	\$77.25	\$75.00	\$77.25

The current March 1 bill is shown in Column 1. With no legislative action, the retail rates would remain unchanged, but the surcharge would be removed as shown in Column 2. The numbers in Column 3

show that City Light's proposal would result in a bill 3 percent greater than the No Action bill in Column 2. With the passing of CB 120015, retail rates would increase at the same time as the removal of the RSA surcharge effecting no change to the amount of the monthly bill as seen by comparing Column 1 and Column 3.

If Council decides not to approve the proposed 2021 rate increase, City Light projects that it would need to increase retail rates for 2022 by approximately 7 percent relative to current 2021 retail rates to meet its currently anticipated 2022 revenue target. As proposed, CB 120015 would increase 2022 rates by 3.9 percent (instead of approximately 7 percent), building on the proposed increase of 3 percent to current 2021 rates.

City Light's Adopted Budget for 2021 is scaled to the retail rates for 2021 that have continued unchanged from 2020. City Light anticipates proposing a 2022 budget with increased spending compared to spending in the 2021 Adopted Budget. Passing CB 120015 would increase revenue to the Light Fund by \$19.6 million in 2021 and \$63.8 million in 2022 to support City Light spending. Also, CB 120015 would increase General Fund revenue from the utility tax by \$1.2 million in 2021 and \$3.8 million in 2022.

City Light has committed to delivering the proposed 2022-2026 Strategic Plan and associated rate path to Council for review in May. City Light states that the 2022 retail rates in the forthcoming rate path will increase by 3.9 percent. Potential Council action on CB 120015 in March does not preclude considering changes to 2022 retail rates later this year after reviewing the expected Strategic Plan and rate path.

Next steps

If on March 17 the Committee acts on a recommendation to Council on CB 120015, then Council could take final action as soon as March 22. CB 120015 includes a section ratifying and confirming prior actions to allow City Light to bill customers based on the proposed changes before the effective date of the bill, should it pass.

cc: Dan Eder, Interim Central Staff Director