

**Overview and Initial Issues Identification
SEATTLE CITY LIGHT**

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Expenditures/Revenues

Expenditures	2014 Endorsed Budget	2014 Proposed Budget	% Change from 2014 Endorsed
Non-Power O&M	\$267,628,205	\$261,362,384	-2.3%
Purchased Power			
Long-Term Contracts	\$242,912,480	\$242,912,480	0.0%
Short-Term Market	\$99,717,888	\$99,717,888	0.0%
Total Purchased Power	\$342,630,368	\$342,630,368	0.0%
CIP	\$219,989,718	\$201,131,754	-8.6%
General Expense	\$87,109,392	\$88,189,686	1.2%
Debt & Taxes	\$282,625,477	\$279,469,698	-1.1%
Total Expenditures	\$1,199,983,160	\$1,172,783,890	-2.3%
Total FTEs	1830.25	1837.25	0.4%
Revenues			
Retail	\$749,605,448	\$756,767,120	1.0%
Wholesale	\$198,251,622	\$198,625,532	0.2%
Other Revenue Sources	\$69,734,286	\$97,942,469	40.5%
Transfers from Construction Fund	\$182,391,804	\$119,448,769	-34.5%
Total Revenues	\$1,199,983,160	\$1,172,783,890	-2.3%

Introduction:

City Light is the largest City department by budget and the second largest (after Police) by FTEs. It provides a critical service to the 750,000 residents and businesses in its service territory, which includes not just Seattle but seven franchise areas and portions of unincorporated King County.

The table above provides a functional view of the utility's budget. This is generally more informative and useful than the BCL view (included at the end of the paper for reference). The key observation from the table is that City Light's 2014 Proposed Budget is \$27 million (2.3%) lower than the 2014 Endorsed Budget, a significant change that requires

explanation.

In 2013, there were unexpected cost increases for two major capital projects:

- The estimated cost of the new Denny Substation is \$66.3 million higher than was anticipated in the Strategic Plan (and hence the 4.7% rate path). About two-thirds of that increase is to provide for improved urban design of the facility, including the public benefit cost of vacating Minor St. as required by the improved design. The balance reflects an acceleration of the build-out of the station's transformer banks to accommodate faster-than-expected load growth in the South Lake Union area; and
- Generating Unit 53 at Boundary Dam suffered severe damage in the spring of 2013 from a malfunction, requiring an immediate rebuild in order to avoid a loss of additional revenue from decreased production capacity in 2014. The expedited timeframe and the extent of the damage resulted in an \$11.7 million cost increase for 2013-2014.

The combined \$78 million increase in the capital program required City Light to make significant adjustments to its six-year CIP to allow the spending plan to stay within the 4.7% rate path prescribed in the 2013-2018 Strategic Plan. In essence, City Light re-worked the capital program to make a large enough hole in it in 2015 and 2016 to absorb the higher cost of the substation in that window. Part of that reduced the effort is in 2014. Rescheduled work on the Alaska Way Viaduct and cost savings on the Mercer Street project also contribute to the reduction in appropriations in 2014.

It is worth noting that part of City Light's solution to the unexpected cost increases is to sell its portfolio of surplus property (worth approximately \$40 million) as expeditiously as possible, including sale of a major property at 8th and Roy in 2014.

Identified Issues:

City Light's 2014 Proposed Budget reduces appropriation authority in its Conservation Resources and Environmental Affairs BCL by \$5.2 million. To be clear, this reduction would not result in a reduction in the purchase of conservation resources in 2014. Rather, this reflects cost savings on the purchase of conservation in 2013 together with carryover from previous years that has allowed City Light to encumber contracts now thus freeing up appropriation authority in 2014. The utility will still meet its 2014 conservation targets.

Although City Light will meet its target in 2014 without this appropriation authority, the Council may wish to re-instate it out of an abundance of caution. In 2013 City Light was pleasantly surprised to be able to purchase kilowatt-hours of conservation more cheaply than it had anticipated. It is possible that in 2014 it may unexpectedly find it needs additional appropriation authority to meet its targets.

Since the original appropriation authority in 2014 was already built into the 2013-2014 rates, adding it back in would have no rate impact.

Option

1. Accept the Mayor's proposed reduction of \$5.2 million in City Light's Conservation Resources and Environmental Affairs BCL
2. Restore the appropriation authority, recognizing that this authority will only be used if needed to fulfill City Light's 2014 conservation goals.

Budget Legislation

There are two Council Bills related to City Light.

Council Bill TBD

AN ORDINANCE relating to the electric system of The City of Seattle; authorizing the issuance and sale of municipal light and power revenue bonds for the purposes of providing funds for certain additions and betterments to and extensions of the existing municipal light and power plant and system of the City, paying the costs of issuance of those bonds and providing for the reserve fund requirement; providing for the terms, conditions, covenants and manner of sale of those bonds; describing the lien of those bonds; and ratifying and confirming certain prior acts.

This is a routine authorization for City Light to issue debt in 2014. The issuance has been approved by the City's Debt Management Policy Committee.

Council Bill TBD

AN ORDINANCE relating to the electric system of The City of Seattle; amending Ordinance 121941, as amended by Ordinance 122838, to conform Ordinance 121941 to reflect changes recently made by the City to update its standard form of bond ordinances; and ratifying and confirming certain prior acts.

When market interest rates are attractive, City Light (like other departments with debt outstanding) will refinance the debt to save interest costs. This Council Bill amends the last Ordinance authorizing a refinance to address recent statutory changes in required language. It is requested by Law and purely technical in nature.

EXPENDITURES BY BCL

BCL	2014 Endorsed	2014 Proposed	Change from Endorsed (\$)	Change from Endorsed (%)
Total Expenditures	\$1,199,983,159	\$1,172,783,889	(\$27,199,270)	-2.3%
Compliance and Security	\$3,442,861	\$3,414,126	(\$28,735)	-0.8%
Financial Services - CIP	\$15,920,063	\$5,848,245	(\$10,071,818)	-63.3%
Financial Services - O&M	\$36,575,868	\$36,700,560	\$124,692	0.3%
General Expenses	\$87,109,392	\$88,189,686	\$1,080,294	1.2%
Human Resources	\$9,137,512	\$9,043,467	(\$94,045)	-1.0%
Office of Superintendent	\$3,198,260	\$3,161,304	(\$36,956)	-1.2%
Debt Service	\$196,466,429	\$192,033,882	(\$4,432,547)	-2.3%
Taxes	\$86,159,047	\$87,435,815	\$1,276,768	1.5%
Customer Focused - CIP	\$57,204,028	\$42,214,506	(\$14,989,522)	-26.2%
Customer Services	\$28,307,173	\$28,010,478	(\$296,695)	-1.0%
Distribution Services	\$73,941,794	\$74,119,488	\$177,694	0.2%
Transmission and Distribution - CIP	\$83,447,858	\$89,135,813	\$5,687,955	6.8%
Cons Resources and Env Affairs O&M	\$61,573,633	\$56,414,392	(\$5,159,241)	-8.4%
Power Supply & Env Affairs - CIP	\$63,417,769	\$63,588,127	\$170,358	0.3%
Power Supply O&M	\$51,451,102	\$50,843,630	(\$607,472)	-1.2%