

Ordinance No. 123260

Council Bill No. 116817

AN ORDINANCE relating to the City Light Department; establishing parameters with respect to the Rate Stabilization Account within the Light Fund created by Ordinance 121637; and adding a new Section 21.49.086 to the Seattle Municipal Code; and ratifying and confirming certain prior acts.

The City of Seattle - Legislative Department

Council Bill/Ordinance sponsored by: Bruce Q. Hannell

Committee Action:

Date	Recommendation	Vote
03/17/2010	PASS	BH, NL, MO

Related Legislation File:

Date Introduced and Referred: 3-15-10	To: (committee): Energy + Technology
Date Re-referred:	To: (committee): ↓ Civil Rights
Date Re-referred:	To: (committee):
Date of Final Action: 3-22-10	Date Presented to Mayor: 3-23-10
Date Signed by Mayor: 3-26-10	Date Returned to City Clerk: 3-29-10
Published by Title Only <input checked="" type="checkbox"/>	Date Vetoed by Mayor:
Published in Full Text <input checked="" type="checkbox"/>	Date Passed Over Veto:
Date Veto Published:	Date Returned Without Signature:

This file is complete and ready for presentation to Full Council.

Full Council Action:

Date	Decision	Vote
3-22-10	Passed	9-0

LAW DEPARTMENT

ORDINANCE 123260

1
2 AN ORDINANCE relating to the City Light Department; establishing parameters with respect to
3 the Rate Stabilization Account within the Light Fund created by Ordinance 121637; and
4 adding a new Section 21.49.086 to the Seattle Municipal Code; and ratifying and
5 confirming certain prior acts.

6 WHEREAS, since 1977 the Mayor and City Council have set electric rates for the City Light
7 Department (City Light) in compliance with specific financial policies adopted by
8 resolution; and

9 WHEREAS, the purpose of such financial policies is to maintain City Light's financial strength;
10 and

11 WHEREAS, wholesale market sales of surplus power are a major source of revenue for City
12 Light, and due to the uncertain nature of its two primary drivers, hydroelectric generation
13 and power market prices, this revenue is unpredictable, extremely variable, and largely
14 uncontrollable; and

15 WHEREAS, the size of this source of revenue has increased significantly since 2001 when, at
16 the City's directions, City Light greatly increased the size of its power portfolio; and

17 WHEREAS, by Ordinance 121637, the City in 2004 created a Rate Stabilization Account within
18 the Light Fund (the "Rate Stabilization Account") for the purpose of reducing the need
19 for rapid and substantial increases in City Light rates solely to address bond coverage
20 and additional bond requirements under ordinances authorizing City Light bonds; and

21 WHEREAS, the Rate Stabilization Account has not yet been funded; and

22 WHEREAS, Resolution 31181 adopted by the City Council on January 11, 2010 declared the
23 Council's intent to complete a comprehensive review of City Light financial policies and
24 to establish new policies by March 31, 2010, designed specifically to address the impact
25 of the variability of wholesale revenue on the utility's financial performance; and

26 WHEREAS, the City Council has completed its review of City Light financial policies; and

27 WHEREAS, consistent with the certain recommendations of the City Light financial policies, the
28 City Council desires to provide additional parameters on the funding, operation and
29 expenditure of amounts in the Rate Stabilization Account; NOW THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. A new Section 21.49.086 is added to the Seattle Municipal Code as follows:



SMC 21.49.086 Rate Stabilization Account

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2 A. The purpose of the Rate Stabilization Account established by Ordinance 121637
3 is, among other things, to absorb fluctuations in City Light's annual revenue in any given year
4 due to deviations in net wholesale revenue from the amount assumed in the adopted budget for
5 that year. Deposits into and withdrawals from the Rate Stabilization Account also affect the
6 calculation of "Net Revenue" under certain provisions of ordinances authorizing City Light
7 bonds, and can therefore serve to absorb other fluctuations in "Net Revenue" as that term is
8 defined in those bond ordinances. Except as otherwise provided by ordinance, funds in the Rate
9 Stabilization Account cannot be used for any purposes other than those specified herein .
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12 B. Target size of the Rate Stabilization Account:

13 The target size of the Rate Stabilization Account shall be no less than \$100 million and
14 no greater than \$125 million.
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16 C. Initial funding of the Rate Stabilization Account:

17 Initial funding of the Rate Stabilization Account will come from a variety of sources
18 including:

- 19 (1) the amount remaining in City Light's existing Contingency Reserve Account;
20 (2) cash from operations in 2010 in excess of that required for operations and debt
21 service;
22 (3) revenue from the sale of surplus property in 2010 and 2011 not already recognized in
23 City Light's 2010 Adopted Budget;
24 (4) allowable savings in 2010, 2011, and 2012 from refunding bonds in 2010; and
25 (5) other sources of revenue as determined by the City Council.
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2 D. Baseline for the Net Wholesale Revenue forecast:

3 For the purpose of this Ordinance, Net Wholesale Revenue means gross wholesale
4 revenue less the amount of wholesale purchases.

5 The Net Wholesale Revenue forecast for any given year shall be the simple average of
6 such revenue realized over all years beginning with 2002 and ending with the last year prior to
7 that of the forecast for which City Light has complete information, unless, after consideration of
8 additional information, the City Council determines a different methodology is warranted. The
9 forecast thus established shall be the amount of Net Wholesale Revenue assumed by the City
10 Council for the purpose of establishing City Light rates and budgets.

11 The annual forecast will be distributed over the quarters of the year as follows:

12 30% for January 1 to March 31;

13 35% for April 1 to June 30;

14 15% for July 1 to September 30; and

15 20% for October 1 to December 31.

16 The amounts determined in this way will be the quarterly Net Wholesale Revenue forecasts for
17 the purpose of Subsection E and will be reported by City Light in its annual budget proposals.

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22 E. Use of the Rate Stabilization Account:

23 Effective January 1, 2011; should the actual Net Wholesale Revenue for any quarter be
24 less than the forecast for that quarter as determined in Subsection D, City Light will transfer the
25 difference, rounded to the nearest million dollars, from the Rate Stabilization Account to the
26 Light Fund. Alternatively, should the actual Net Wholesale Revenue for any quarter be greater
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1 than the forecast for that quarter as determined in Subsection D, City Light will transfer the
2 difference, rounded to the nearest million dollars, from the Light Fund to the Rate Stabilization
3 Account. In each case the transfer will occur within thirty days of the end of the quarter in
4 question.

5 No later than thirty days after the end of each quarter, City Light will notify the Mayor
6 and the City Council of the forecast and actual Net Wholesale Revenue for that quarter and for
7 the year to date, and of the amount remaining in the Rate Stabilization Account after transfers
8 authorized under this Subsection.
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11 F. Replenishment of the Rate Stabilization Account:

12 (1) Whenever the amount in the Rate Stabilization Account is \$90 million or less, City
13 Light will impose a surcharge equal to 1.5% of base rates at the earliest opportunity. The
14 proceeds from the surcharge will be deposited into the Rate Stabilization Account. The
15 surcharge will remain in effect until the amount in the Rate Stabilization Account reaches \$100
16 million and will be removed at the earliest opportunity thereafter.
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18 (2) Whenever the amount in the Rate Stabilization Account is \$80 million or less, City
19 Light will impose an additional surcharge equal to 1.5% of base rates at the earliest opportunity.
20 The proceeds of the additional surcharge will be deposited into the Rate Stabilization Account.
21 The additional surcharge will remain in effect until the amount in the Rate Stabilization Account
22 reaches \$90 million, and will be removed at the earliest opportunity thereafter.
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25 (3) Whenever the amount in the Rate Stabilization Account is \$70 million or less, City
26 Light will impose an additional surcharge equal to 1.5% of base rates at the earliest opportunity.
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1 The proceeds of the additional surcharge will be deposited into the Rate Stabilization Account.

2 The additional surcharge will remain in effect until the amount in the Rate Stabilization Account
3 reaches \$80 million, and will be removed at the earliest opportunity thereafter.

4 City Light will notify the Mayor and the Council in writing of its intent to impose a
5 surcharge under either of these provisions.

6 (4) Effective after the fund has reached its minimum target value of \$100 million; If, in
7 spite of the rate surcharges provided for in paragraphs (1), (2), and (3) of this Subsection, the
8 amount in the Rate Stabilization Account is \$50 million or less, the City Council will initiate a
9 rate review, if the Mayor has not already done so, within forty five days that will increase rates,
10 reduce City Light spending, or identify additional sources of funding, or a combination of these
11 measures, to bring the amount in the Account up to \$100 million within a period of 12 or fewer
12 months.
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14 Interest earned by the funds in the Rate Stabilization Account will be deposited into
15 that account.

16 Nothing herein shall limit the authority of the City to deposit other amounts into the
17 Rate Stabilization Account as may be authorized by ordinance.
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21 G. Disposition of excess funds in the Rate Stabilization Account:

22 Effective January 1, 2011; whenever the amount in the Rate Stabilization Account
23 exceeds \$125 million, the City Council will initiate a rate review, if the Mayor has not already
24 done so, within forty five days that will decrease rates, allow City Light to cover more of its
25 capital expenditures with cash from operations or defease outstanding debt in order to keep
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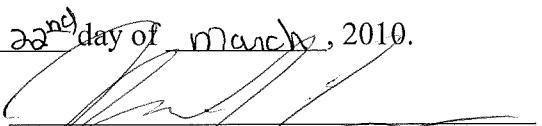
1 future rates low, increase its expenditures, or a combination of these measures, to bring the
2 amount in the Account down to \$125 million within a period of 12 or fewer months.

3 H. Consistent with Section 22 of Ordinance 121637, deposits into or withdrawals from
4 the Rate Stabilization Account in respect of any fiscal year may be made up to and including the
5 date ninety (90) days after the end of that fiscal year.

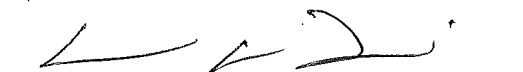
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8 Section 2. Any act consistent with the authority of this Ordinance and taken after its
9 passage but prior to its effective date is hereby ratified and confirmed.

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11 Section 3. This ordinance shall take effect and be in force thirty (30) days from and
12 after its approval by the Mayor, but if not approved and returned by the Mayor within ten (10)
13 days after presentation, it shall take effect as provided by Municipal Code Section 1.04.020.


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15 Passed by the City Council the 22nd day of March, 2010, and signed by me in open
16 session in authentication of its passage this 22nd day of March, 2010.

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18 
19 President _____ of the City Council

20 Approved by me this 26th day of March, 2010.

21
22 
23 Michael McGinn, Mayor

24 Filed by me this 29th day of March, 2010.

25
26 
27 City Clerk

28 (Seal)



FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	DOF Analyst/Phone:
LEG	Tony Kilduff/4-3580	

Legislation Title:

AN ORDINANCE relating to the City Light Department; establishing parameters with respect to the Rate Stabilization Account within the Light Fund created by Ordinance 121637; and adding a new Section 21.49.086 to the Seattle Municipal Code; and ratifying and confirming certain prior acts.

• **Summary of the Legislation:**

This ordinance establishes rules for the operation of the Rate Stabilization Account within City Light established by Ordinance 121637.

• **Background:** *(Include brief description of the purpose and context of legislation and include record of previous legislation and funding history, if applicable):*

In 2009, City Light budgeted for about \$142 million in net wholesale revenue. It realized around \$69 million. The forecast for 2010 similarly shows an anticipated shortfall relative to forecast of around \$50 million. These shortfalls result both in significant disruption in City Light's program planning and performance, negatively impacting its customers, and in erratic and reactionary changes in rates.

The ordinance seeks to minimize the impact of uncertain wholesale revenue on the utility and its customers by establishing a buffer to absorb the shocks. The utility may use the account when revenues are down relative to forecast, thus stabilizing its financial situation, and the legislation also provides for automatic rate surcharges as a corrective when the fund reaches certain thresholds. This allows for a more orderly adjustment of rates to volatility in revenues.

The legislation also establishes a methodology for establishing the forecast that does not depend on City Light's models, but rather depends on the history of observed net wholesale revenue.

• *Please check one of the following:*

This legislation does not have any financial implications. *(Stop here and delete the remainder of this document prior to saving and printing.)*



STATE OF WASHINGTON – KING COUNTY

--SS.

252787
CITY OF SEATTLE, CLERKS OFFICE

No.

Affidavit of Publication

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12th day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CT:123260 ORDINANCE

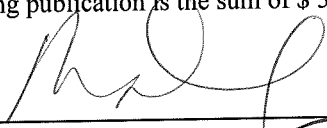
was published on

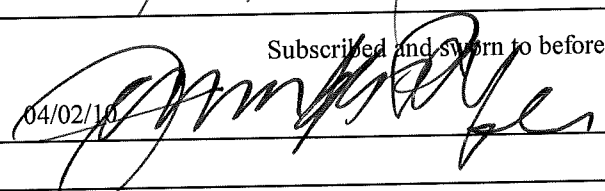
04/02/10

The amount of the fee charged for the foregoing publication is the sum of \$ 341.25, which amount has been paid in full.



Affidavit of Publication



Subscribed and sworn to before me on
04/02/10 

Notary public for the State of Washington,
residing in Seattle

City of Seattle

ORDINANCE 123260

AN ORDINANCE relating to the City Light Department, establishing parameters with respect to the Rate Stabilization Account within the Light Fund created by Ordinance 121637; and adding a new Section 21.49.086 to the Seattle Municipal Code; and ratifying and confirming certain prior acts.

WHEREAS, since 1977 the Mayor and City Council have set electric rates for the City Light Department (City Light) in compliance with specific financial policies adopted by resolution; and

WHEREAS, the purpose of such financial policies is to maintain City Light's financial strength; and

WHEREAS, wholesale market sales of surplus power are a major source of revenue for City Light, and due to the uncertain nature of its two primary drivers, hydroelectric generation and power market prices, this revenue is unpredictable, extremely variable, and largely uncontrollable; and

WHEREAS, the size of this source of revenue has increased significantly since 2001 when, at the City's directions, City Light greatly increased the size of its power portfolio; and

WHEREAS, by Ordinance 121637, the City in 2004 created a Rate Stabilization Account within the Light Fund (the "Rate Stabilization Account") for the purpose of reducing the need for rapid and substantial increases in City Light rates solely to address bond coverage and additional bond requirements under ordinances authorizing City Light bonds; and

WHEREAS, the Rate Stabilization Account has not yet been funded; and

WHEREAS, Resolution 31181 adopted by the City Council on January 11, 2010 declared the Council's intent to complete a comprehensive review of City Light financial policies and to establish new policies by March 31, 2010, designed specifically to address the impact of the variability of wholesale revenue on the utility's financial performance; and

WHEREAS, the City Council has completed its review of City Light financial policies; and

WHEREAS, consistent with the certain recommendations of the City Light financial policies, the City Council desires to provide additional parameters on the funding, operation and expenditure of amounts in the Rate Stabilization Account; NOW THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

F. Replenishment of the Rate Stabilization Account:

(1) Whenever the amount in the Rate Stabilization Account is \$90 million or less, City Light will impose a surcharge equal to 1.5% of base rates at the earliest opportunity. The proceeds from the surcharge will be deposited into the Rate Stabilization Account. The surcharge will remain in effect until the amount in the Rate Stabilization Account reaches \$100 million and will be removed at the earliest opportunity thereafter.

(2) Whenever the amount in the Rate Stabilization Account is \$80 million or less, City Light will impose an additional surcharge equal to 1.5% of base rates at the earliest opportunity. The proceeds of the additional surcharge will be deposited into the Rate Stabilization Account. The additional surcharge will remain in effect until the amount in the Rate Stabilization Account reaches \$90 million, and will be removed at the earliest opportunity thereafter.

(3) Whenever the amount in the Rate Stabilization Account is \$70 million or less, City Light will impose an additional surcharge equal to 1.5% of base rates at the earliest opportunity. The proceeds of the additional surcharge will be deposited into the Rate Stabilization Account. The additional surcharge will remain in effect until the amount in the Rate Stabilization Account reaches \$80 million, and will be removed at the earliest opportunity thereafter.

City Light will notify the Mayor and the Council in writing of its intent to impose a surcharge under either of these provisions.

(4) Effective after the fund has reached its minimum target value of \$100 million; if, in spite of the rate surcharges provided for in paragraphs (1), (2), and (3) of this Subsection, the amount in the Rate Stabilization Account is \$60 million or less, the City Council will initiate a rate review, if the Mayor has not already done so, within forty five days that will increase rates, reduce City Light spending, or identify additional sources of funding, or a combination of these measures, to bring the amount in the Account up to \$100 million within a period of 12 or fewer months.

Interest earned by the funds in the Rate Stabilization Account will be deposited into that account.

Nothing herein shall limit the authority of the City to deposit other amounts into the Rate Stabilization Account as may be authorized by ordinance.

G. Disposition of excess funds in the Rate Stabilization Account:

Effective January 1, 2011; whenever the amount in the Rate Stabilization Account exceeds \$125 million, the City Council will initiate a rate review, if the Mayor has not already done so, within forty five days that will decrease rates, allow City Light to cover more of its capital expenditures with cash from operations or defease outstanding debt in order to keep future rates low, increase its expenditures, or a combination of these measures, to bring the amount in the Account down to \$125 million within a period of 12 or fewer months.

H. Consistent with Section 22 of Ordinance 121637, deposits into or withdrawals from the Rate Stabilization Account in respect of any fiscal year may be made up to and including the date ninety (90) days after the end of that fiscal year.

Section 2. Any act consistent with the authority of this Ordinance and taken after its passage but prior to its effective date is hereby ratified and confirmed.

Section 3. This ordinance shall take effect and be in force thirty (30) days from and after its approval by the Mayor, but if not approved and returned by the Mayor within ten (10) days after presentation, it shall take effect as provided by Municipal Code Section 1.04.020.

Passed by the City Council the 22nd day of March, 2010, and signed by me in open session in authentication of its passage this 22nd day of March, 2010.

Richard Conlin

President of the City Council

Approved by me this 26th day of March, 2010.

Michael McGinn, Mayor

Filed by me this 29th day of March, 2010.

Publication ordered by the City Clerk
Date of publication in the Seattle Daily Journal of Commerce, April 2, 2010.

4/2(252787)

Section 1. A new Section 21.49.086 is added to the Seattle Municipal Code as follows:

SMC 21.49.086 Rate Stabilization Account

A. A The purpose of the Rate Stabilization Account established by Ordinance 121637 is, among other things, 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. Deposits into and withdrawals from the Rate Stabilization Account also affect the calculation of "Net Revenue" under certain provisions of ordinances authorizing City Light bonds, and can therefore serve to absorb other fluctuations in "Net Revenue" as that term is defined in those bond ordinances. Except as otherwise provided by ordinance, funds in the Rate Stabilization Account cannot be used for any purposes other than those specified herein.

B. Target size of the Rate Stabilization Account:

The target size of the Rate Stabilization Account shall be no less than \$100 million and no greater than \$125 million.

C. Initial funding of the Rate Stabilization Account:

Initial funding of the Rate Stabilization Account will come from a variety of sources including:

(1) the amount remaining in City Light's Contingency Reserve Account;

(2) cash from operations in 2010 in excess of that required for operations and debt service;

(3) revenue from the sale of surplus property in 2010 and 2011 not already recognized in City Light's 2010 Adopted Budget;

(4) allowable savings in 2010, 2011, and 2012 from refunding bonds in 2010; and

(5) other sources of revenue as determined by the City Council.

D. Baseline for the Net Wholesale Revenue forecast:

For the purpose of this Ordinance, Net Wholesale Revenue means gross wholesale revenue less the amount of wholesale purchases.

The Net Wholesale Revenue forecast for any given year shall be the simple average of such revenue realized over all years beginning with 2002 and ending with the last year prior to that of the forecast for which City Light has complete information, unless, after consideration of additional information, the City Council determines a different methodology is warranted. The forecast thus established shall be the amount of Net Wholesale Revenue assumed by the City Council for the purpose of establishing City Light rates and budgets.

The annual forecast will be distributed over the quarters of the year as follows:

30% for January 1 to March 31;

35% for April 1 to June 30;

15% for July 1 to September 30; and 20% for October 1 to December 31.

The amounts determined in this way will be the quarterly Net Wholesale Revenue forecasts for the purpose of Subsection E and will be reported by City Light in its annual budget proposals.

E. Use of the Rate Stabilization Account:

Effective January 1, 2011; should the actual Net Wholesale Revenue for any quarter be less than the forecast for that quarter as determined in Subsection D, City Light will transfer the difference, rounded to the nearest million dollars, from the Rate Stabilization Account to the Light Fund. Alternatively, should the actual Net Wholesale Revenue for any quarter be greater than the forecast for that quarter as determined in Subsection D, City Light will transfer the difference, rounded to the nearest million dollars, from the Light Fund to the Rate Stabilization Account. In each case the transfer will occur within thirty days of the end of the quarter in question.

No later than thirty days after the end of each quarter, City Light will notify the Mayor and the City Council of the forecast and actual Net Wholesale Revenue for that quarter and for the year to date, and of the amount remaining in the Rate Stabilization Account after transfers authorized under this Subsection.