

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
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Legislation Title: AN ORDINANCE relating to the Seattle Department of Transportation; authorizing the Director of the Seattle Department of Transportation, on behalf of the City of Seattle, to execute an assignment, assumption, and consent agreement with the Seattle Steam Limited Partnership, Seattle Community Energy, LLC, and BIF II District Energy Holdings III LC regarding the transfer of the Seattle Steam Franchise authorized under Ordinance 121067, as amended by Ordinance 122260, to BIF II District Energy Holdings III LLC.

Summary of the Legislation: This ordinance would authorize the City of Seattle to transfer the Franchise Agreement with Seattle Steam to its acquiring company Brookfield. The transfer would also impose additional conditions to the existing Franchise Agreement to increase current bond and franchise fee amounts, include new boundary limits for the expansion of steam infrastructure, impose requirements to use closed-loop hot water extensions for future District Energy expansions, and impose carbon emission standards that apply to new customer growth.

Background:

The Seattle Department of Transportation administers a Franchise Agreement between the City and Seattle Steam, a family-owned, local thermal energy utility that provides steam heating to about 200 customers in the downtown core. In 2003, the City authorized a 50-year extension of the Franchise Agreement between the City and Seattle Steam, authorizing Seattle Steam to continue operating as a utility, installing and repairing infrastructure in the public right-of-way.

In June 2014, Seattle Steam was approached for purchase by Brookfield, a multi-billion dollar asset management company that holds private utility assets, among others, across North America. As a condition of sale, the transfer of the existing Franchise Agreement between the City of Seattle and Seattle Steam to Brookfield is required for continued operation of the utility under new ownership.

The Office of Sustainability and Environment, in collaboration with the Transportation Department, Seattle City Light, and the Mayor’s Office, took the opportunity of franchise transfer to review the existing agreement with Seattle Steam, negotiating modifications to the Franchise Agreement through a new Memorandum of Understanding. The goal of this renegotiation was to better align environmental and financial policies of the City to Seattle Steam’s continued role as a modern district energy utility.

The agreement seeks to increase the franchise fee and bond amount from Seattle Steam to be comparable with fees and liability protections expected of other District Energy Utility partners.

Additionally, the agreement defines new limits on the expansion of older steam pipe technology, with the intent to encourage investment away from aging technology expansions into new service areas and neighborhoods. Where new service is to be provided, the modifications additionally require expansions of Seattle Steam service to use of newer, closed-loop hot water pipe technology. Finally, the agreement establishes new carbon emissions standards for the utility in efforts to align with City goals around carbon neutral energy production. Seattle Steam is required to serve all new customers with energy produced by 50% renewable fuel sources, as defined by the EPA’s renewable fuel inventory. The agreement requires Seattle Steam to calculate a new system-wide carbon emissions limit every year, based on their carbon emissions and growth in energy production reported to the City and state climate registry. Where carbon targets are not met, the utility will purchase offsets to make up the remaining difference.

This legislation does not have any financial implications.

This legislation has financial implications.

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Department	Revenue Source	2014 Revenue	2015 Revenue
	Seattle Department of Transportation	Franchise Fee	\$0	\$75,000
TOTAL			\$0	\$75,000

Revenue/Reimbursement Notes:

This legislation would increase the current Franchise Fee from \$13,354 to \$75,000 per year, set to grow annually by a percentage equal to the growth in new installed meters for Seattle Steam customers.

Other Implications:

- a) **Does the legislation have indirect financial implications, or long-term implications?**
No.
- b) **What is the financial cost of not implementing the legislation?**
The primary cost of not implementing this legislation is the foregone revenue from the increased franchise fee.
- c) **Does this legislation affect any departments besides the originating department?**
This legislation affects Seattle City Light through permit review process, as well as the Office of Sustainability and Environment, who will continue to work with the Department of Transportation to assist in enforcement and evaluation of the terms and conditions under the modified Franchise Agreement.

d) What are the possible alternatives to the legislation that could achieve the same or similar objectives?

None.

e) Is a public hearing required for this legislation?

No.

f) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

No.

g) Does this legislation affect a piece of property?

While this legislation does not affect a specific piece of property, it does define limits to the expansion of steam and closed-loop hot water piping for thermal heating purposes. Defined boundaries are included in the map attachment to the Memorandum of Understanding.

h) Other Issues:

None.

List attachments to the fiscal note below:

None.