



## 2025-2030 Strategic Plan Update Financial Forecast

### EXECUTIVE SUMMARY

This document details the financial assumptions behind the rate path established by City Light's 2025-2030 Strategic Plan Update (the "Plan"). The proposed rate path provides the revenue required to deliver the goals outlined in the Plan.

Average rates are derived by dividing the revenue requirement by retail sales. City Light's revenue requirement is increasing around \$77 million (6.1%) per year and retail sales are growing by almost 1% per year.

### RATE INCREASE SUMMARY

	2024 <sup>1</sup>	2025	2026	2027	2028	2029	2030
Revenue Requirement, \$M	\$1,091	\$1,147	\$1,217	\$1,291	\$1,379	\$1,460	\$1,555
Annual Increase		5.1%	6.1%	6.0%	6.9%	5.8%	6.5%
Retail Sales GWh	9,099	9,075	9,134	9,225	9,388	9,463	9,602
Annual Change		-0.3%	0.6%	1.0%	1.8%	0.8%	1.5%
Average Rate, ¢/kWh	12.0	12.6	13.3	14.0	14.7	15.4	16.2
<b>Annual Increase (Rate Path)</b>		<b>5.4%</b>	<b>5.4%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>

<sup>1</sup>2024 values are current planning values using current consumption profiles and retail rates (RSA surcharge is excluded).

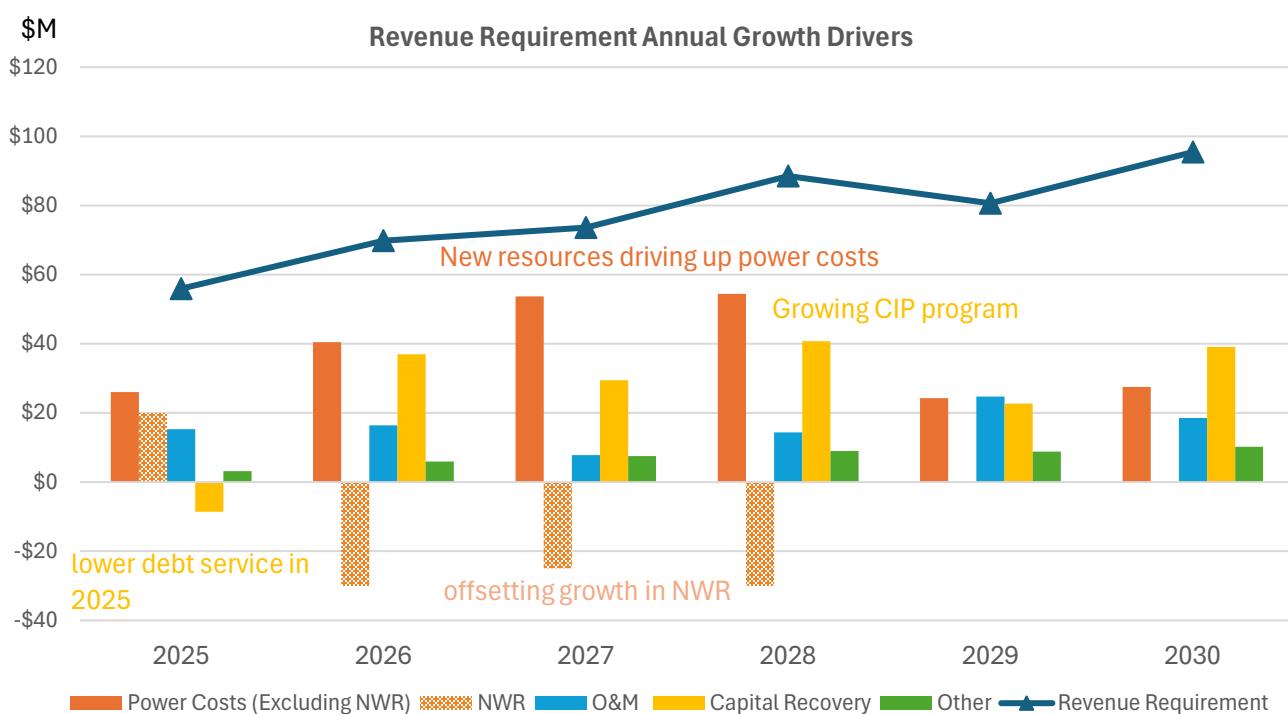
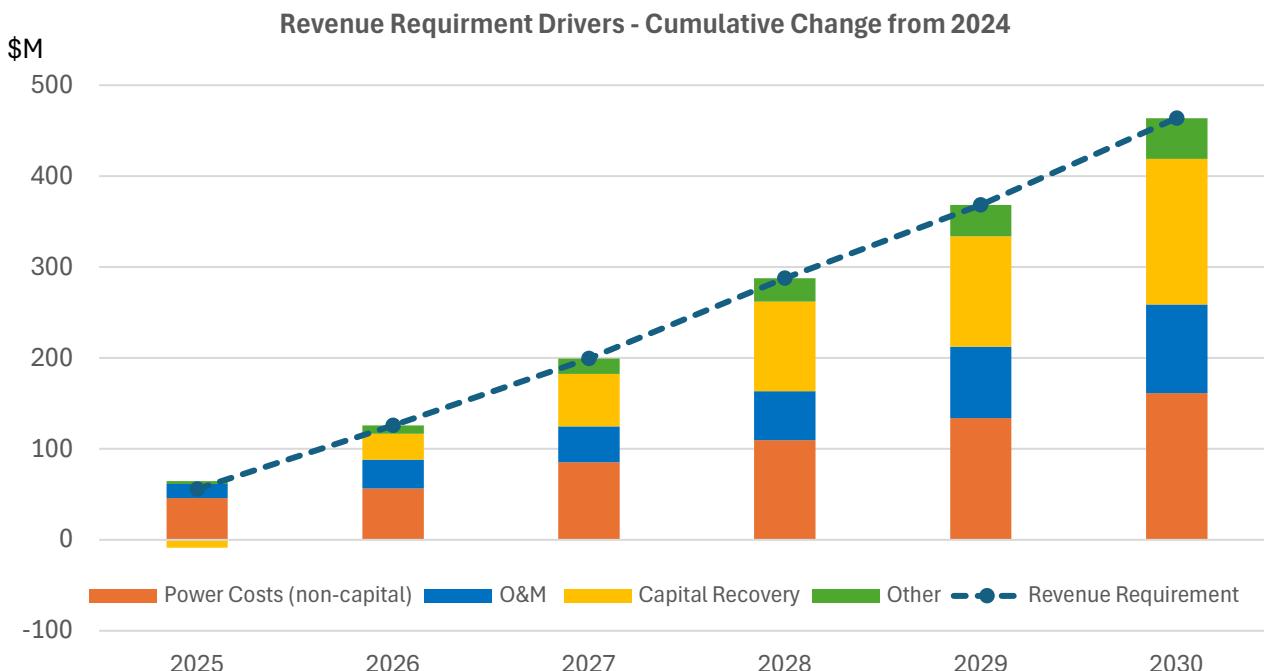
Below is a table of bill impacts assuming each customer receives the annual rate increase noted above and maintains a consistent level of consumption. These impacts are examples only and will change after the cost of service and rate design process is completed for each year. Customers who decrease their consumption through energy efficiency measures will experience smaller bill impacts. Monthly bills for a typical residential customer are expected to grow around \$5 every year, making the total annual increase around \$60 per year.

### CUSTOMER BILL IMPACT EXAMPLES

	Monthly Bill	Monthly Increase						
		2024	2025	2026	2027	2028	2029	2030
Residential (630 kWh/month)	\$87.99	\$4.75	\$5.01	\$4.89	\$5.13	\$5.39	\$5.66	\$5.14
Residential - UDP (60% Discount)	\$35.20	\$1.90	\$2.00	\$1.96	\$2.05	\$2.16	\$2.26	\$2.06
Small Commercial - Car Wash	\$515	\$28	\$29	\$29	\$30	\$32	\$33	\$30
Medium Commercial - Retail Store	\$8,298	\$448	\$472	\$461	\$484	\$508	\$534	\$484
Large Industrial- Cement	\$27,060	\$1,461	\$1,540	\$1,503	\$1,578	\$1,657	\$1,740	\$1,580
Large Commercial-Hospital	\$105,206	\$5,681	\$5,988	\$5,844	\$6,136	\$6,443	\$6,765	\$6,143
Large Commercial-Education	\$2,311,844	\$124,840	\$131,581	\$128,413	\$134,834	\$141,576	\$148,654	\$134,983

The below charts and table summarize City Light's revenue requirements for 2025-2030.

### REVENUE REQUIREMENT DRIVERS 2025-2030



### RETAIL REVENUE REQUIREMENT SUMMARY

	2024	2025	2026	2027	2028	2029	2030
<b>\$, Millions</b>							
Revenue Requirement	\$1,091	\$1,147	\$1,217	\$1,291	\$1,379	\$1,460	\$1,555
Capital Recovery							
Debt Service	\$246	\$241	\$252	\$241	\$258	\$267	\$264
Revenue Available for Capital & Liquidity*	\$168	\$164	\$190	\$230	\$254	\$268	\$310
Operations & Maintenance (O&M)							
2024 O&M Baseline	\$372	\$372	\$372	\$372	\$372	\$372	\$372
Inflation	\$18	\$29	\$43	\$55	\$68	\$81	\$94
Renewable Energy Credits	\$0	\$1	\$0	-\$6	-\$6	-\$6	-\$8
New Programs	\$0	\$3	\$7	\$8	\$10	\$21	\$28
Net Power Costs							
New Resources	\$0	\$8	\$49	\$99	\$147	\$147	\$164
Other Power and Wheeling Contracts	\$260	\$275	\$274	\$277	\$282	\$305	\$311
Net Wholesale Revenue (NWR)	-\$45	-\$25	-\$55	-\$80	-\$110	-\$110	-\$110
Power Related Revenues, Net	-\$19	-\$16	-\$16	-\$15	-\$14	-\$13	-\$7
Other Revenues/Costs							
Taxes, Payments and Uncollectibles	\$136	\$140	\$144	\$153	\$163	\$174	\$185
Miscellaneous Revenue	-\$44	-\$44	-\$43	-\$44	-\$45	-\$47	-\$48

\*This is the amount of operating revenue that is available to cash fund the capital program or add to overall liquidity

### Drivers of 2025-2030 Revenue Requirements and Rates

#### 1. Capital Recovery

- Funds historic and future capital investments.
  - Capital requirements expected to increase significantly.
  - 43% of 2025-2030 capital requirement expected to be funded with revenue/operating cash.
  - Also includes cash to support increased liquidity per new debt strategy. (See Appendix A)
- Debt service expected to have moderate growth as the utility issues debt over time.
  - Payments on new debt exceed payments on retired debt.

#### 2. Operations and Maintenance (O&M)

- Based on 2024 adopted O&M budget and expected to grow greater than CPI inflation.
- Increased 2024 labor costs around 11% as a placeholder for anticipated labor costs not included in the Adopted 2024 budget.
  - The 2024 Adopted Budget assumed a cumulative cost of living adjustments (COLA) of around 6.4% for 2023 and 2024.
  - The COLA agreement with the coalition of labor unions was 9.7% cumulative for 2023 and 2024. Many job classes are expected to have additional wage adjustments.
- Base O&M expected to grow a little under 1% higher than CPI per year.
- Additional funds to cover additional market-based wage adjustments and support new programs.

### 3. Net Power Costs

- Bonneville (BPA) power and transmission costs are the largest single component at over \$225 million; BPA power and transmission costs are expected to increase around 3% per year on average.<sup>1</sup>
- New power resources required to meet resource adequacy targets. Planning assumption is \$164 million for roughly 235 aMW 2030 for a combination of solar, wind, battery storage and transmission.
- NWR planning value decreased to \$25 million in 2025 but gradually grows as the utility adds more renewable resources.

### 4. Other Revenues/Costs<sup>2</sup>

- Not a large driver, taxes grow proportionally with revenue.

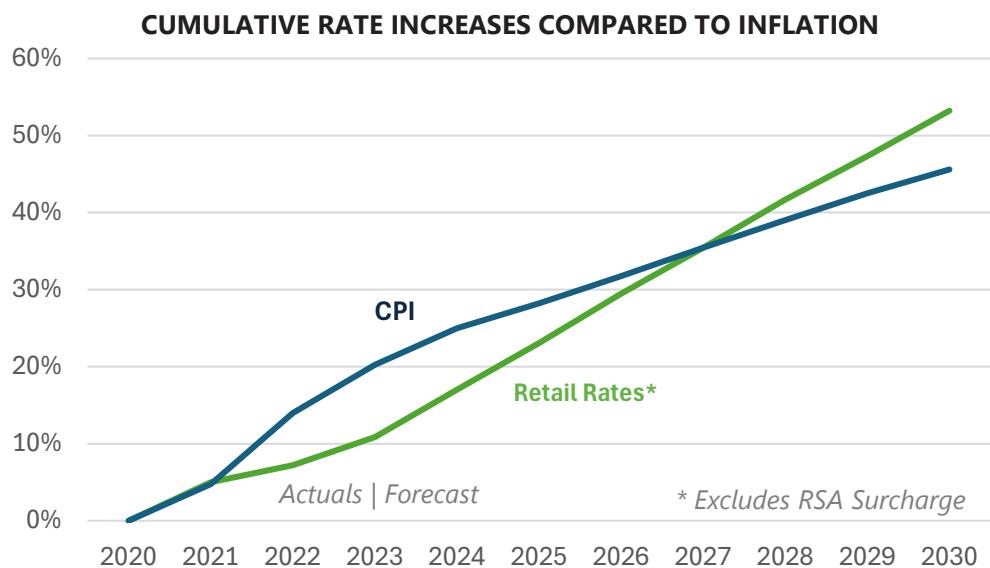
## Inflation Outlook

Price inflation continues to put upward pressure on costs. The below table shows recent actual CPI inflation along with a forecast through 2030.

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
CPI*	4.8%	8.8%	5.5%	3.9%	2.6%	2.8%	2.8%	2.6%	2.5%	2.2%

\*Consumer Price Index, Source: City of Seattle Office of Economic and Revenue Forecasts

CPI inflation is not a perfect indicator of total cost pressures faced by an electric utility. However, it can be a useful indicator of how City Light retail rate/bill increases compare with other cost increases faced by customers. The below chart shows that cumulative rate increases from 2020 are expected to be less than CPI inflation through 2027. For the period 2020-2030 retail rate increases are expected to grow around 6% more than CPI inflation.



<sup>1</sup>Once BPA announces final record of decision for fiscal year 2026 rates, any material cost differences between the planning values and expected BPA bills with final BPA rates will be passed through to City Light customers with the BPA passthrough mechanism.

<sup>2</sup> Includes city and state taxes, franchise payments and uncollectible revenue, which tend to grow in proportion to retail revenue. Miscellaneous revenue comes from a variety of fees and service charges, as well as interest earnings.

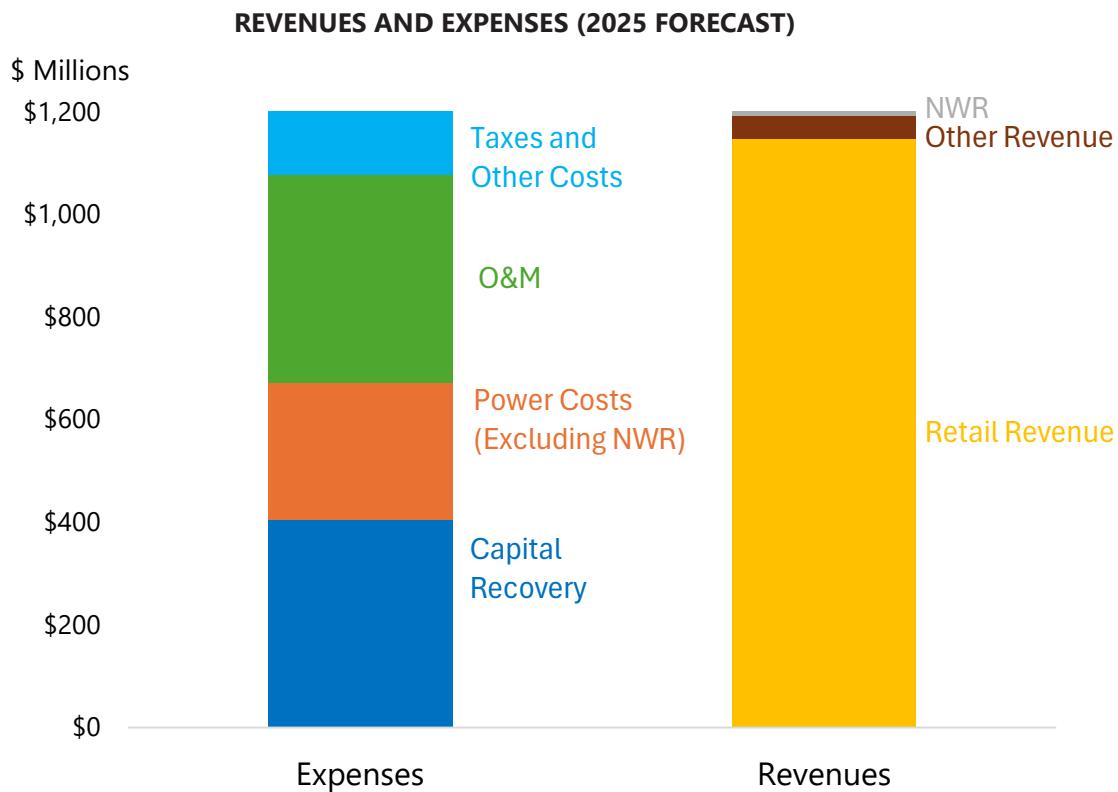
## INTRODUCTION

The 2025-2030 Strategic Plan Update (the Plan) builds on the 2023-2028 Strategic Plan approved in July 2023. The Plan extends the horizon an additional two years to 2030.

This document details the assumptions that determine the average retail rate path for the years 2025-2030. Average retail rates are not actual billed rates but are the ratio of the revenue requirement to retail sales and represent the average impact to customer bills, assuming their consumption is constant.

$$\text{average rate } \left( \frac{\$}{kwh} \right) = \frac{\text{revenue requirement } (\$)}{\text{retail sales } (kwh)}$$

The revenue requirement is the amount of retail revenue that must be collected to balance revenues with expenses, given financial policies. The chart below illustrates how the revenue requirement is sized to meet expenses.



The following is a short description of each primary component of the revenue requirement. These are discussed in detail in the subsequent sections of this document.

#### Capital Recovery

- Includes the cost of debt-funded capital investments (debt service payments) and funds a portion of the current capital requirement, so they are not all debt financed.
- Per policy, retail revenue should be sized to achieve at or above 1.80 times the annual debt service obligation.
- For this planning horizon, debt coverage is higher than 1.80x every year so as to meet the policy of revenue-funding greater than 40% of the 6-year CIP (See Appendix A).

#### O&M

- Includes cash-related expenses for all O&M costs excluding taxes, purchased power and wheeling (wheeling is purchased transmission).
- All non-capitalized labor costs are included in this category.
- Includes inflation assumptions, additional program funding requirements, as well as any mitigating cost reductions.

#### Power, Net

- Purchased power costs and wheeling costs, net of power revenues.
- Includes revenues from surplus power sales net of purchases, also called net wholesale revenue.
- Does not include costs of operating owned generation (e.g. Skagit, Boundary hydro projects), these are part of O&M.

#### Other

- Includes tax payments, franchise payments and uncollectible revenue, net of miscellaneous revenues.

This document concludes with a short discussion of the retail sales forecast, which is the denominator in the average rate formula.

### **CAPITAL RECOVERY (CIP AND BONDS)**

Capital recovery reflects the cost of capital spending, as recovered over time. Net capital requirements are comprised of the capital improvement program (CIP) less capital contributions, which are payments from outside sources that offset capital expenses.

$$\text{Net Capital Requirements} = \text{CIP} - \text{Capital Contributions}$$

Net capital requirements are not a direct component of the revenue requirement but, along with financial policies, determine the amount of debt (bonds) issued and the amount of net capital requirements funded with operating cash. The principal payments on outstanding debt and associated interest expense make up debt service.

Net capital requirements, along with financial policies, also help determine the amount of debt (bonds) issued and the amount of CIP funded with operating revenue. City Light's current financial policies (established by Resolution 31187) calls for setting rates to yield sufficient revenue net of expenses to cover annual debt service obligations by 1.8 times and fund at least 40% of the capital program with operating revenue over a six-year average. Both conditions are met when sizing the revenue requirements for this Plan.

The capital expenditures forecast is based on the 2024-2029 Adopted CIP Plan and adds additional costs to account for increases for labor and material costs, as well as placeholders for new capital cost pressures including relicensing the Skagit hydro generation project and supporting electrification of buildings and transportation. The 2030 CIP is sized based on the size of the projected capital plan in 2028 and 2029. The CIP forecast used to set

rates also differs from the CIP Plan (budget) in that the timing of spending is adjusted to reflect projected cash outflows, and amounts are reduced by a 10% assumed under-expenditure.

The next table summarizes capital requirements and funding sources. Capital contributions include third-party funding for capital expenses such as service connections and reimbursements for certain transportation projects and are included in the forecast as a credit to total capital requirements. Capital funding from operations reflects cash drawdowns and may represent net operating proceeds from the current or previous year(s). Bond issuances during the 2025-2030 planning period total around \$1.5 billion and will bring total outstanding debt to over \$3.5 billion by 2030. The average funding of the 2025-2030 net capital requirements with operating proceeds is 43%, slightly above the 40% target.<sup>3</sup>

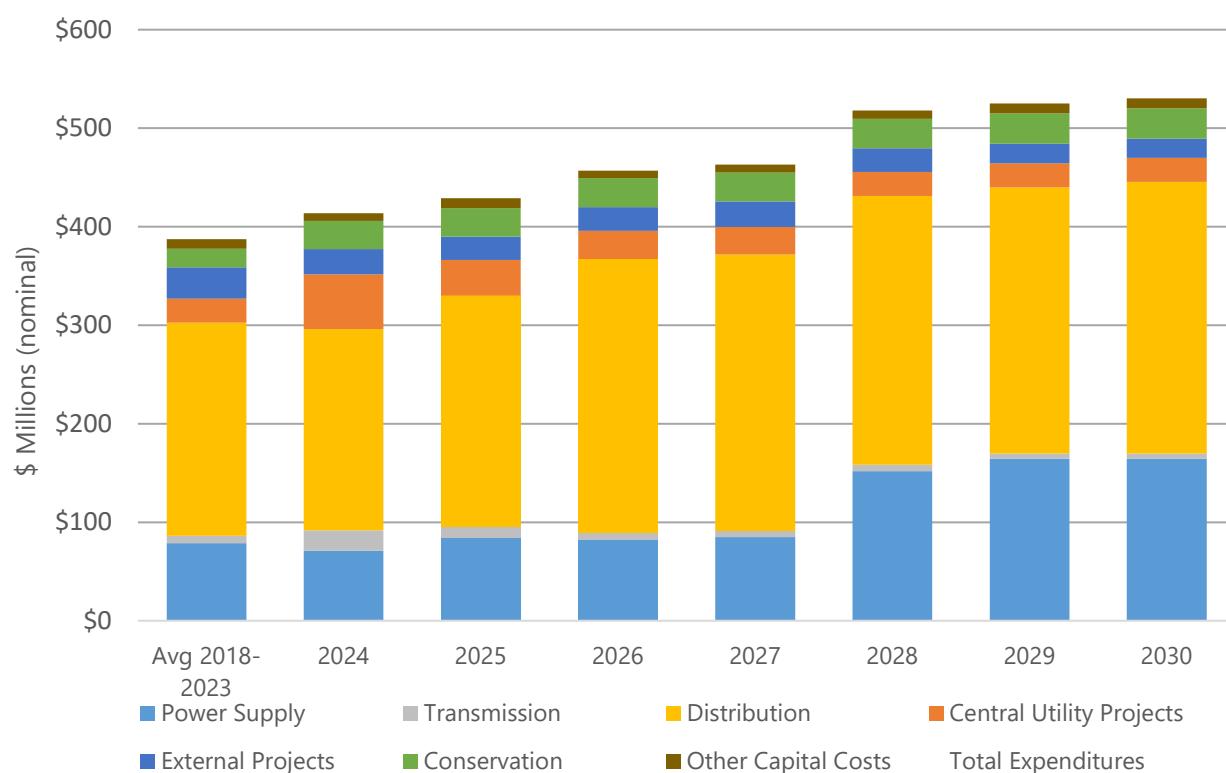
<b>CAPITAL REQUIREMENTS AND FUNDING</b>							
<b>\$, Millions</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
Capital Requirements							
Adopted CIP	\$414	\$404	\$397	\$398	\$398	\$425	\$400
Additions		\$25	\$60	\$65	\$120	\$100	\$130
Total CIP	\$414	\$429	\$457	\$463	\$518	\$525	\$530
Capital Contributions	-\$64	-\$43	-\$42	-\$44	-\$46	-\$49	-\$49
<b>Total Net Capital Requirements</b>	<b>\$349</b>	<b>\$385</b>	<b>\$414</b>	<b>\$419</b>	<b>\$472</b>	<b>\$476</b>	<b>\$481</b>
Capital Funding							
Bond Proceeds	\$194	\$292	\$230	\$273	\$262	\$247	\$194
Operations	\$156	\$93	\$185	\$146	\$209	\$229	\$287
<b>Total</b>	<b>\$349</b>	<b>\$385</b>	<b>\$414</b>	<b>\$419</b>	<b>\$472</b>	<b>\$476</b>	<b>\$481</b>
Total Debt Outstanding	\$2,713	\$2,888	\$3,017	\$3,177	\$3,325	\$3,467	\$3,549

#### MAJOR CIP PROJECTS INCLUDED IN THE 2024-2029 ADOPTED CIP

Master Project Number and Description	Six-year Total Spend, \$M
8351: Overhead Equipment Replacements	\$269.4
2250: Energy Efficiency	\$187.7
8353: Underground Equipment Replacements	\$158.5
8333: Distribution System Replacements	\$157.2
8366: Medium Overhead and Underground Services	\$144.8
8630: Network Systems	\$118.0
8370: Network Services	\$116.3
8452: Pole Attachments	\$108.8
6987: Boundary Licensing Mitigation	\$101.4
3133: Environmental Cleanup	\$71.3

#### CAPITAL IMPROVEMENT PLAN

<sup>3</sup> The average 2025-2030 capital funding from operations is calculated by taking the total 2025-2030 funding from operations (\$1,095 million) and dividing by the total 2025-2030 Net Capital Requirements (\$2,647 million) to get 41%.



Capital requirements determine the size of future bond sales and resulting debt service, and the sales are timed to ensure sufficient liquidity to provide at least 150 days of operating cash on hand. The bond size shown below is slightly higher than bond proceeds shown above to account for issue costs and required deposits into the bond reserve fund. All bond issues are assumed to have a 30-year term. Borrowing costs are assumed to be 4.5% in 2024 and 5.0% in 2025-2030. Debt service payments on the 2030 bond issue are assumed to start in 2031, so there is no direct impact on debt service during the planning period from the 2030 debt issue. In efforts to smooth the rate path, debt service coverage is allowed to fluctuate year to year but managed at an overall level that meets the six-year target of 40% or greater capital funding from operations.

**BOND SALES AND DEBT SERVICE, \$MILLIONS**

	<b>Bond Size</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
Existing <sup>1</sup>		\$228	\$220	\$194	\$193	\$185	\$166
2024 (Aug) <sup>2</sup>	\$200	\$12	\$12	\$12	\$12	\$12	\$12
2025 (Aug) <sup>3</sup>	\$299		\$19	\$19	\$19	\$19	\$19
2026 (Aug) <sup>3</sup>	\$236			\$15	\$15	\$15	\$15
2027 (Aug) <sup>3</sup>	\$275				\$18	\$18	\$18
2028 (Aug) <sup>3</sup>	\$264					\$17	\$17
2029 (Aug) <sup>3</sup>	\$248						\$16
Total Debt Service		\$241	\$252	\$241	\$258	\$267	\$264
Debt Service and Coverage		\$476	\$515	\$549	\$595	\$622	\$667
Debt Service Coverage ratio		1.98	2.04	2.28	2.31	2.33	2.53

<sup>1</sup>As of December 2023, <sup>2</sup>Fixed Rate Issue (30 year/4.5%), <sup>3</sup>Fixed Rate Issue (30 year/5.0%)

## OPERATIONS AND MAINTENANCE (O&M)

Operations and maintenance expenses (O&M) are the costs associated with day-to-day operations. O&M is a large and diverse category of costs that includes functions such as power production, distribution and transmission system operation and maintenance, customer services such as billing and meter reading, and administrative support. This forecast defines O&M as excluding purchased power, wheeling and taxes, which are separate categories.

The basis for the 2025-2030 O&M forecast is the 2024 Adopted O&M budget, which is then increased each year to reflect rising costs. An \$18 million placeholder was added to the 2024 Adopted Budget to reflect emergent market-based labor cost increases. The annual cost increase is between 3% and 4% per year and is around 0.6% higher than CPI inflation on average. Specific funding in certain areas may change as resource and organizational adjustments are made to deliver on the strategic initiatives and core services.

**BUDGET O&M INFLATION BY CATEGORY**

\$, Millions	2024 <sup>1</sup>	2025	2026	2027	2028	2029	2030
Labor	\$186	\$194	\$202	\$210	\$218	\$226	\$234
Labor Benefits	\$78	\$80	\$83	\$85	\$88	\$91	\$94
Overhead Credit	-\$64	-\$66	-\$69	-\$71	-\$74	-\$77	-\$79
Non-Labor	\$112	\$114	\$117	\$120	\$122	\$125	\$128
Transfers to City	\$90	\$92	\$96	\$99	\$102	\$105	\$108
Total Inflated O&M Budget	\$401	\$414	\$429	\$442	\$456	\$470	\$484
Annual Change		\$12	\$15	\$13	\$14	\$14	\$15
Annual Change %		3.1%	3.6%	3.1%	3.1%	3.1%	3.1%

<sup>1</sup> 2024 reflects current forecast

There are numerous adjustments made to the O&M budget values to produce O&M financial forecast values consistent with financial reporting and policies. These adjustments are outlined in the below table. Proposed incremental program funding in 2025 and 2026 is expected to primarily support increased capabilities around power planning and new markets, power line clearance, cyber security and wildfire management. Additional program funding is included the out years forecast to reflect anticipated emergent cost pressures to be addressed in future budget cycles. The following table details the adjustments and shows the relationship between the inflated O&M budget and the O&M forecast.

## O&M ADJUSTMENTS DETAIL

<b>\$, Millions</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>
Inflated 2024 Budget	\$401	\$414	\$429	\$442	\$456	\$470	\$484
Adjustments							
add I937 RECs (included in PP budget) <sup>1</sup>	\$13	\$14	\$13	\$7	\$7	\$7	\$5
add Intertie included in wheeling budget <sup>1</sup>	\$1	\$1	\$1	\$1	\$1	\$1	\$1
subtract Engineering OH not included in budget	-\$6	-\$6	-\$7	-\$7	-\$7	-\$7	-\$8
Subtract under expenditure assumption <sup>2</sup>	-\$20	-\$21	-\$21	-\$22	-\$23	-\$23	-\$24
add New and expanded programs <sup>3</sup>	\$0	\$3	\$7	\$8	\$10	\$21	\$28
Total O&M	\$390	\$405	\$422	\$429	\$444	\$468	\$487
Adopted 2024 O&M Budget	\$372	\$372	\$372	\$372	\$372	\$372	\$372
Changes from 2024							
Inflation	\$18	\$29	\$43	\$55	\$68	\$81	\$94
REC Costs	\$0	\$1	\$0	-\$6	-\$6	-\$6	-\$8
New and Expanded Programs	\$0	\$3	\$7	\$8	\$10	\$21	\$28

<sup>1</sup> Renewable Energy Credits (RECs) and maintenance costs associated with ownership of the 3rd AC intertie are budgeted as purchased power but recognized as O&M in financial statements. RECs required to meet state regulations are expected to decrease in the out years as City Light brings on more renewable energy.

<sup>2</sup> Assumes 5% of the O&M Budget will remain unspent.

<sup>3</sup> Includes cost projections for new and expanded programs including power planning and new markets, demand side management programs and support, increases in cyber security and wildfire management and additional placeholder spending for the out years.

## POWER COSTS, NET

This category includes all costs and revenue associated with the wholesale purchase and sale of electricity, wheeling (rented transmission) and associated ancillary services.

Current projections reflect the expiration of the Columbia Basin Hydro contracts in 2024 through 2026 and the acquisition of new resources from 2025 onward. The volume of new resources now projected to be acquired in 2027 and later is significantly higher than it was in the previous Strategic Plan (2023-2028). The resource acquisition plan includes a mix of solar and wind generation, as well as utility scale battery storage. New resource acquisitions may be pursued in greater or lesser quantities than currently planned based on factors including power market outlook, reliability studies and customer programs. The costs of new power resources are partially offset by increases in planning values for Net Wholesale Revenue. Below is a table outlining long-term power and wheeling costs.

## LONG-TERM POWER AND WHEELING CONTRACTS

\$, Millions	2024	2025	2026	2027	2028	2029	2030
BPA Power <sup>1</sup>	\$162	\$179	\$175	\$177	\$172	\$191	\$193
BPA Wheeling <sup>2</sup>	\$66	\$68	\$71	\$74	\$77	\$80	\$83
New Resources <sup>3</sup>	\$0	\$8	\$49	\$99	\$147	\$147	\$164
Lucky Peak <sup>4</sup>	\$9	\$10	\$10	\$10	\$11	\$11	\$11
Other Wheeling <sup>5</sup>	\$4	\$5	\$5	\$5	\$14	\$15	\$15
Columbia Ridge <sup>6</sup>	\$7	\$7	\$7	\$7	\$5	\$4	\$4
King County West Point <sup>6</sup>	\$2	\$3	\$3	\$3	\$3	\$3	\$3
Priest Rapids <sup>7</sup>	\$1	\$1	\$1	\$1	\$1	\$1	\$1
High Ross <sup>8</sup>	\$0	\$0	\$0	\$0	\$1	\$1	\$1
Columbia Basin Hydro <sup>9</sup>	\$8	\$2	\$2	\$0	\$0	\$0	\$0
Total LT Power & Wheeling Contracts	\$260	\$283	\$323	\$376	\$429	\$452	\$475

<sup>1</sup> Assumes that BPA base power rates increase around 2% on average every year. Changes to purchase volumes, load shaping rates and a 3-year Fiscal Year 2026-2028 BPA rate period make the annual changes to the BPA bill non-uniform.

<sup>2</sup> Assumes BPA wheeling costs increase 4.5% annually on average and purchased transmission volumes gradually grow.

<sup>3</sup> New Resources identified to meet resource adequacy targets in the 2022 Integrated Resource Plan. The planning values include a mix of solar and wind resources including transmission and also utility scale battery storage. The new resources are expected to provide around 234 aMW by 2028.

<sup>4</sup> Reflects production O&M costs growing with inflation.

<sup>5</sup> Forecast assumes Lucky Peak production is brought to load in all years and City Light pays for the transmission.

<sup>6</sup> Cost inflates per contract terms.

<sup>7</sup> Priest Rapids costs are expected to decline because City Light's share of the project will shrink as Grant PUD's load grows.

<sup>8</sup> Expenses for the High Ross contract reflect a small level of O&M costs. City Light stopped making capital payments in 2020.

<sup>9</sup> Reflects City Light's apportioned allotment of production O&M costs, growing with inflation. Contracts start expiring in 2024 and all will expire by 2026.

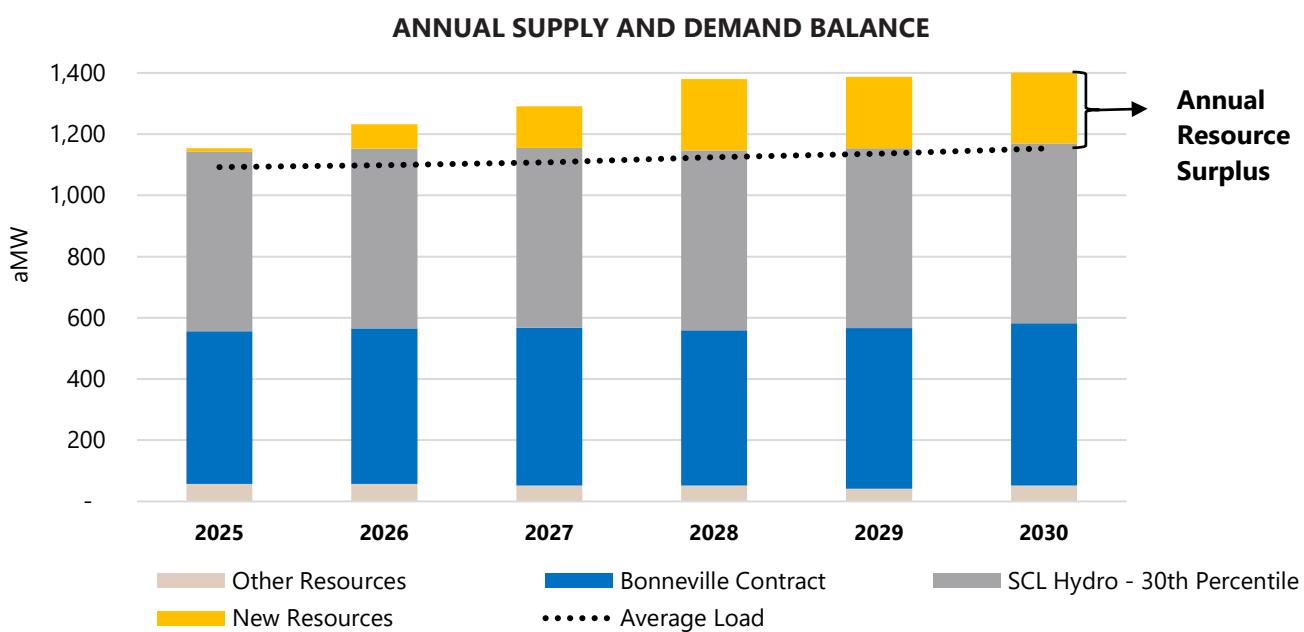
City Light's largest contracted power purchase is with the Bonneville Power Administration (BPA). BPA power and wheeling bills are complex and based on many factors including City Light load, BPA base rates, BPA's load shaping charges and BPA's rate setting periods. In general, BPA sets rates every two years and new rate periods start in October of odd years. However, BPA will have a 3-year rate period for fiscal years 2026-2028 to align with the start of the new contract period in October 2028. For planning purposes this forecast reflects the same product and contract terms as before in the new contract period. Once BPA announces its record of decision for BPA rates for FY 2026-2028, City Light's 2026 BPA power and transmission bills under the new rates will be compared to the planning values in this report. Any material differences will be automatically implemented in rates per the BPA pass-through mechanism (SMC 21.49.081).

### BPA DETAIL

\$, Millions	2024	2025	2026	2027	2028	2029	2030
Block Power Costs	\$162	\$179	\$175	\$177	\$172	\$191	\$193
Transmission (Wheeling) Costs	\$66	\$68	\$71	\$74	\$77	\$80	\$83
<b>Total BPA Costs</b>	<b>\$227</b>	<b>\$247</b>	<b>\$246</b>	<b>\$251</b>	<b>\$249</b>	<b>\$271</b>	<b>\$276</b>
BPA Block Purchases, GWh	4,325	4,363	4,448	4,514	4,459	4,602	4,601
BPA Transmission Purchases, MW	2,241	2,241	2,241	2,241	2,391	2,391	2,391

Long-term purchased power acquisitions are expected to exceed retail load growth, on a volumetric basis. Because new wind and solar resources are intermittent, additional resources will be required to ensure that retail demand can be reliably met under varying conditions. Also, City Light's peak load is projected to increase faster than average load, further increasing firm resources needs to reliably meet load under stress conditions (typically extreme weather events).

The below chart shows City Light's annual resource mix and retail load. Production from owned hydro generation facilities is uncertain and varies significantly year-to-year. For planning purposes, this forecast assumes the 30<sup>th</sup> percentile of hydro generation from the years 2001-2023. New power resource acquisitions are expected to increase the overall volume of surplus power available to be sold on the wholesale market. Net Wholesale Revenue is the revenue from selling surplus energy, net of purchases for load balancing.



Planning values for revenues from surplus power sales, or Net Wholesale Revenues (NWR) are summarized in the table below. The NWR value for 2025 is \$20M lower than 2024 to reflect recent observed trends towards dry conditions, weather anomalies, and more dynamic market activity, which appear to be deteriorating revenues City Light is able to realize from sales of surplus power. NWR is projected to grow as new resources come online, however given evolving markets and climate change, there is a great deal of risk around this assumption. Variations in surplus electricity sales (NWR) are mitigated by the Rate Stabilization Account (RSA), a cash reserve and rate mechanism designed to insulate customers from wholesale market and weather risk. Any differences between actual NWR and these planning values will be transferred to/from the RSA (SMC 21.49.086).

#### WHOLESALE REVENUES, NET

\$, Millions	2024	2025	2026	2027	2028	2029	2030
NWR	\$45	\$25	\$55	\$80	\$110	\$110	\$110

Power related revenues are comprised of long-term power sales, net revenues from sales of ancillary market services, and transmission sales. The following table details these assumptions.

### POWER RELATED REVENUES, NET

\$, Millions	2024	2025	2026	2027	2028	2029	2030
Power Contracts							
Delivery to Pend Oreille County <sup>1</sup>	\$4	\$4	\$4	\$4	\$4	\$5	\$0
Priest Rapids <sup>2</sup>	\$5	\$1	\$1	\$1	\$1	\$0	\$0
BPA Credit for South Fork Tolt	\$3	\$3	\$3	\$3	\$2	\$0	\$0
Power Marketing Net <sup>3</sup>	\$5	\$5	\$5	\$4	\$4	\$4	\$4
Transmission Sales <sup>4</sup>	\$3	\$3	\$3	\$3	\$3	\$3	\$3
<b>Total Power Related Revenues, net</b>	<b>\$19</b>	<b>\$16</b>	<b>\$16</b>	<b>\$15</b>	<b>\$14</b>	<b>\$13</b>	<b>\$7</b>

<sup>1</sup> Current agreement ends in 2029.

<sup>2</sup> Reflects Reasonable Portion contract with Grant PUD. Decreases in the out years to under \$500k.

<sup>3</sup> Power marketing revenues (net of purchases) are earned from sales of ancillary services associated with generation and transmission assets, such as reserve capacity sales.

<sup>4</sup> Short-term transmission sales. Includes resale of BPA point-to-point transmission and 3rd AC transmission capacity.

### OTHER COSTS AND MISCELLANEOUS REVENUES

This "other" category is made up of costs and revenues such as taxes, interest income and fees for retail services.

#### OTHER COSTS (TAXES, PAYMENTS AND UNCOLLECTIBLES) DETAIL

\$, Millions	2024	2025	2026	2027	2028	2029	2030
City Taxes <sup>1</sup>	\$68	\$71	\$73	\$77	\$83	\$87	\$93
State Taxes <sup>2</sup>	\$49	\$49	\$51	\$54	\$58	\$62	\$66
Franchise Payments and Other Taxes <sup>3</sup>	\$11	\$11	\$11	\$12	\$13	\$13	\$14
Uncollectible Revenues <sup>4</sup>	\$8	\$9	\$9	\$10	\$10	\$11	\$12

<sup>1</sup> City taxes, which are 6% of retail revenues, plus some other revenues.

<sup>2</sup> State taxes are 3.8734% of retail revenues, plus some other revenues and contributions.

<sup>3</sup> Payments associated with franchise contracts with the cities of Burien, Lake Forest Park, SeaTac, Shoreline, Tukwila and King County (expected to be approved in 2022). Franchise payments range from 4% to 6% of total retail revenue in each franchise territory. Franchise payments for King County are assumed to start at 8% effective April 2022 and decrease to 6% in 2026 and thereafter. Also includes a utility tax passthrough for Normandy Park and Lake Forest Park and other miscellaneous taxes (e.g., B&O tax) to other jurisdictions where the utility has operations.

<sup>4</sup> Uncollectible revenue is assumed to be 0.75% of retail revenues.

#### MISCELLANEOUS REVENUE SOURCES DETAIL

\$, Millions	2024	2025	2026	2027	2028	2029	2030
Non-Base Rate Retail Revenue <sup>1</sup>	\$6	\$6	\$7	\$7	\$7	\$7	\$7
Other Revenue <sup>2</sup>	\$21	\$22	\$22	\$23	\$23	\$24	\$24
Suburban Undergrounding <sup>3</sup>	\$2	\$2	\$2	\$2	\$2	\$2	\$2
Property Sales <sup>4</sup>	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Interest Income <sup>5</sup>	\$9	\$10	\$11	\$11	\$12	\$12	\$12
Operating Fees & Grants	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net RSA Transfers <sup>6</sup>	\$4	\$3	\$0	\$0	\$0	\$0	\$0
<b>Total Other Revenue Sources</b>	<b>\$44</b>	<b>\$44</b>	<b>\$43</b>	<b>\$44</b>	<b>\$45</b>	<b>\$47</b>	<b>\$48</b>

<sup>1</sup> Non-base rate retail revenue includes revenues from retail customers for services or programs which are not dictated by the revenue requirement. Examples include elective green power programs, distribution capacity charges and power factor charges.

<sup>2</sup> Other revenue includes a broad range of income sources, such as late payment fees, payments for damages to property, transmission tower attachments, distribution pole attachments and account change fees. These revenues are expected to increase over time, mostly growing with inflation.

<sup>3</sup> Suburban undergrounding revenues are collected from customers in certain suburban cities for the repayment of discretionary municipal undergrounding of parts of their distribution system.

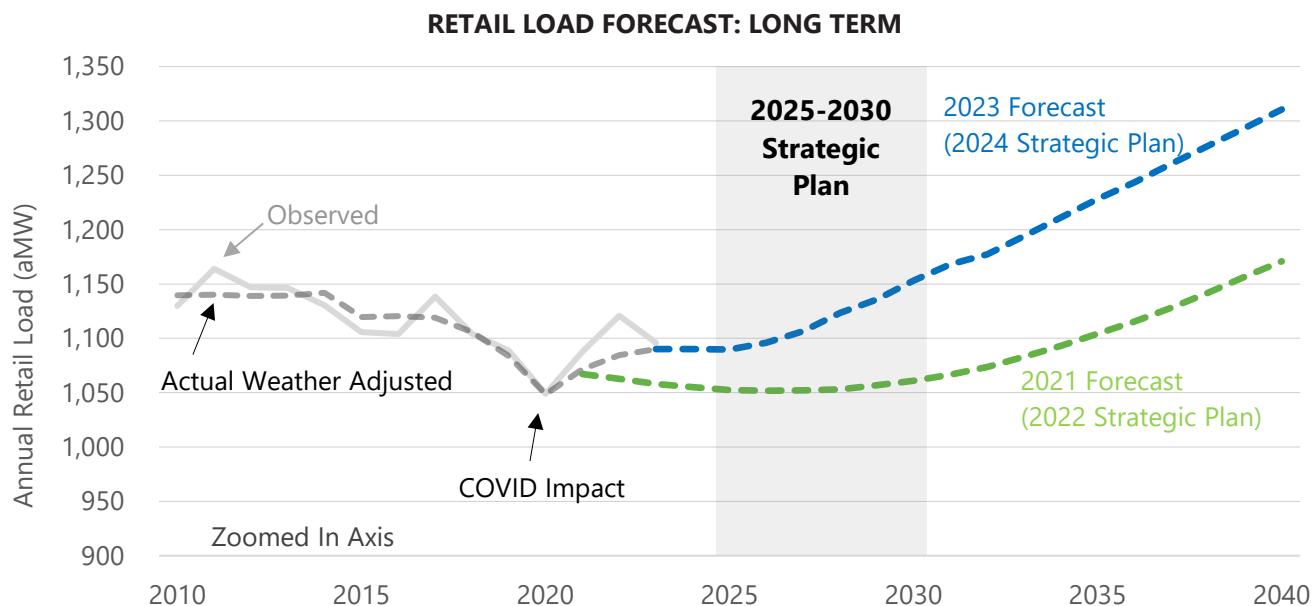
<sup>4</sup> Property sales based on historical averages. No large sales are assumed in this forecast.

<sup>5</sup> Interest income assumes City Cash Pool cash holdings accrue interest at an annual rate of 1.5%.

<sup>6</sup> RSA transfers are the deposit into the RSA net of any RSA surcharge revenue.

## RETAIL SALES

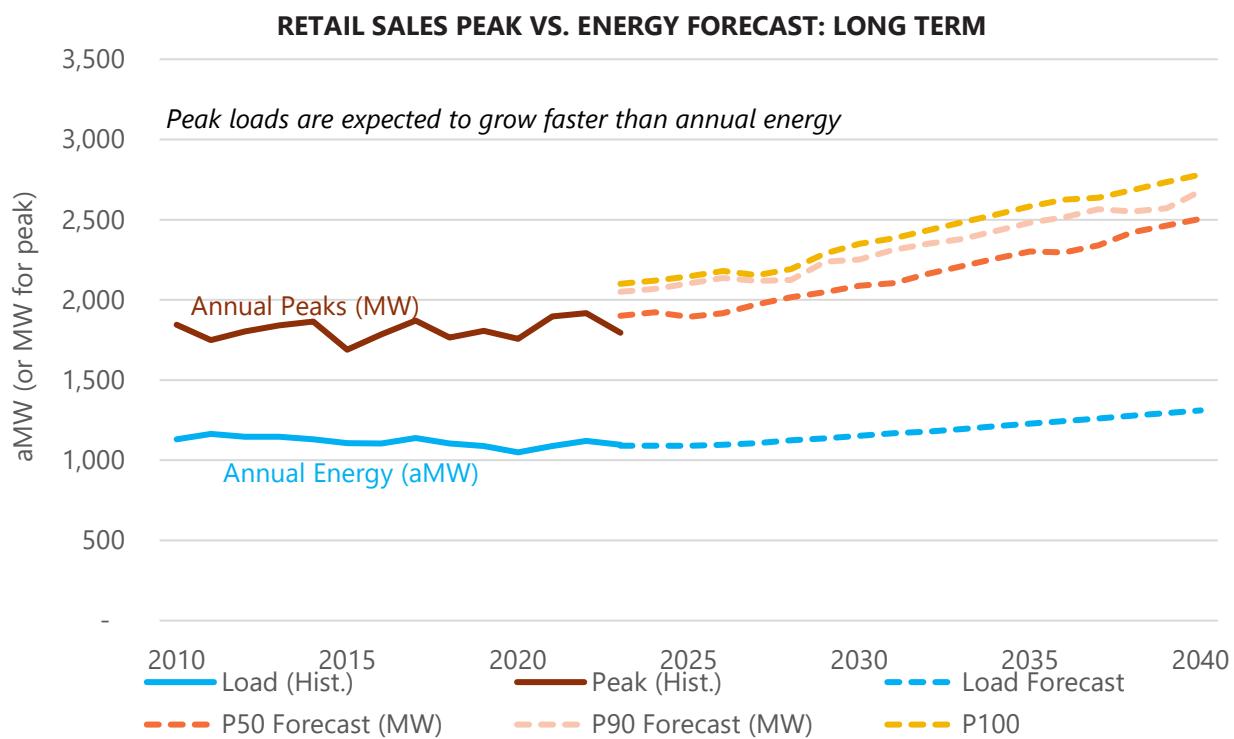
The forecast of retail sales is based on City Light's 2023 official load forecast, which predicts load growth of 5.5% from 2024 to 2030. Energy efficiency investments by both the Utility and customers are expected to continue to reduce sales and outpace new load from economic growth. However, electrification of transportation and buildings is expected to gradually bring on more load, resulting in material load growth during the Strategic Planning period. The amount and timing of new electrification load is very uncertain and will continue to be studied. The below chart shows retail load is expected to be significantly higher than assumed in the previous Strategic Plan.



## RETAIL SALES FORECAST BY CUSTOMER CLASS: 2024-2030

GWh	2024	2025	2026	2027	2028	2029	2030
Residential	3,144	3,147	3,161	3,187	3,226	3,234	3,269
Small and Medium	3,557	3,540	3,570	3,613	3,695	3,740	3,809
Large and High Demand	2,398	2,388	2,403	2,425	2,468	2,489	2,523
<b>Total</b>	<b>9,099</b>	<b>9,075</b>	<b>9,134</b>	<b>9,225</b>	<b>9,388</b>	<b>9,463</b>	<b>9,602</b>
Annual change							
Residential		0.1%	0.4%	0.8%	1.2%	0.3%	1.1%
Small and Medium		-0.5%	0.8%	1.2%	2.3%	1.2%	1.8%
Large and High Demand		-0.4%	0.6%	0.9%	1.8%	0.9%	1.4%
<b>Total</b>		<b>-0.3%</b>	<b>0.6%</b>	<b>1.0%</b>	<b>1.8%</b>	<b>0.8%</b>	<b>1.5%</b>

As City Light customers continue to electrify vehicles and buildings, peak load is expected to grow faster than average energy consumption. In general, City Light sizes its energy, transmission and distribution requirements to reliably meet peak load and, given the long planning and construction timelines, capacity expansions need to be in place before the load growth arrives. Revenue is primarily recovered by energy sales so higher growth in peak load can add more cost pressure than is brought in by additional retail revenue, driving up average retail rates. The below chart shows the growth in peak load (P50 = 50<sup>th</sup> percentile, P90 = 90<sup>th</sup> percentile and P100 = 100<sup>th</sup> percentile or max load).



## **APPENDIX A: RATE SETTING TARGETS AND GUIDELINES AND DEBT STRATEGY**

---

Producing and delivering electricity to customers requires a significant amount of physical infrastructure, making electrical utilities among the most capital-intensive industries. Designed to last multiple decades, this infrastructure and its associated installation require large upfront costs. City Light uses long-term debt as a tool to help spread out the cost recovery of these long-lived assets, which enables it to provide lower and more stable retail rates to its customer-owners.

Part of implementing City Light's 2023-2028 Strategic Plan is developing an official strategy for developing an optimal mix of funding for the capital plan and managing the growth in overall debt. As part of this process, in 2023 City Light reviewed its current policies and practices and proposed changes to its rate setting targets and strategies to supplement City Light's existing policies. The additions will provide flexibility when setting rates, ensure adequate annual financial performance and manage the amount of outstanding debt.

### **Current Financial Policies (established in 2010 by Resolution 31187)**

1. *Rate Setting Guideline:* It is the policy of the City of Seattle to set electric rates for the City Light Department at levels sufficient for it to achieve a debt service coverage ratio of 1.8.
2. *Debt Policy:* The City Light Department will manage its capital improvement program so that on average over any given six-year capital improvement program it will fund 40% of the expenditures with cash from operations.

### **Supplemental Targets and Guidelines**

1. Updating the target debt service coverage
  - *at least* 1.80x in any given year and the 6-year rolling average greater than 1.90x.
2. Refining the target for funding of the capital plan from operating cash
  - Six-year average operating cash funding of *net* capital requirements greater than 40%.
3. Introducing a leverage target
  - Debt-to-fixed asset ratio less than 60%.
4. Introducing a liquidity target
  - Days cash on hand is greater than 150 days.
5. Allow for temporary flexibility
  - Suspension of capital funding and leverage targets is permissible for up to 5 years under exceptional circumstances.<sup>4</sup> Requires written letter to City Council stating the current situation and the plan for returning into compliance with all financial policies.

In addition to setting new targets, the 2023 debt strategy also proposed exceeding the debt service coverage and capital funding targets in the 2025-2030 Strategic Plan in order to provide more financial buffer if projected capital costs increase significantly in the future. The financial forecast at the time indicated that the utility would be able to significantly exceed the 40% capital funding from operations target without large rate increases. However, two primary factors have changed in the financial forecast that caused City Light to revisit how much it proposes to exceed the financial targets by.

1. Significant increases in the amount and cost of planned new renewable energy resources required to reliably meet load.

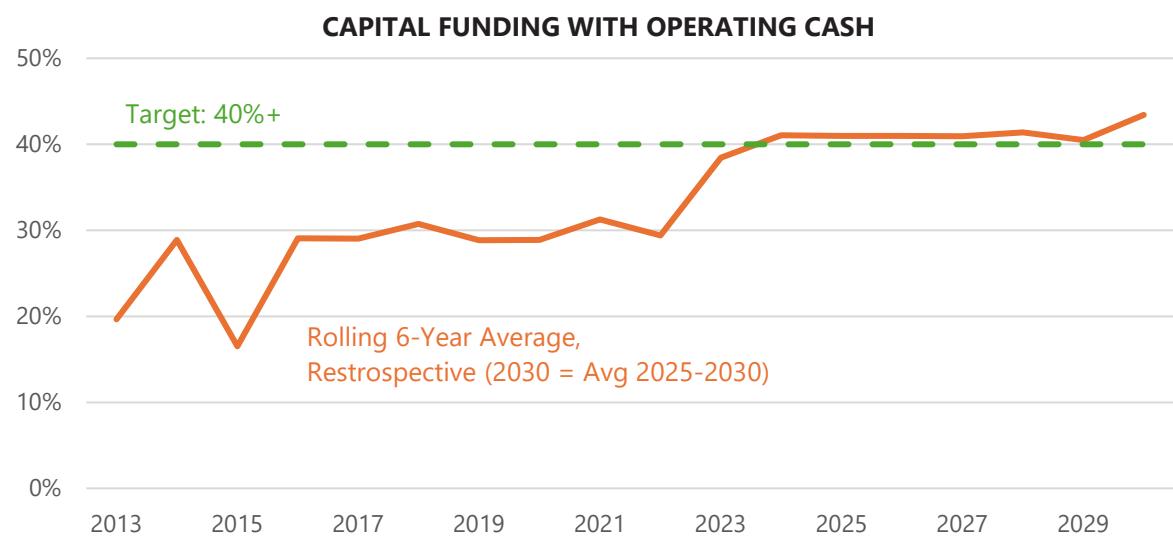
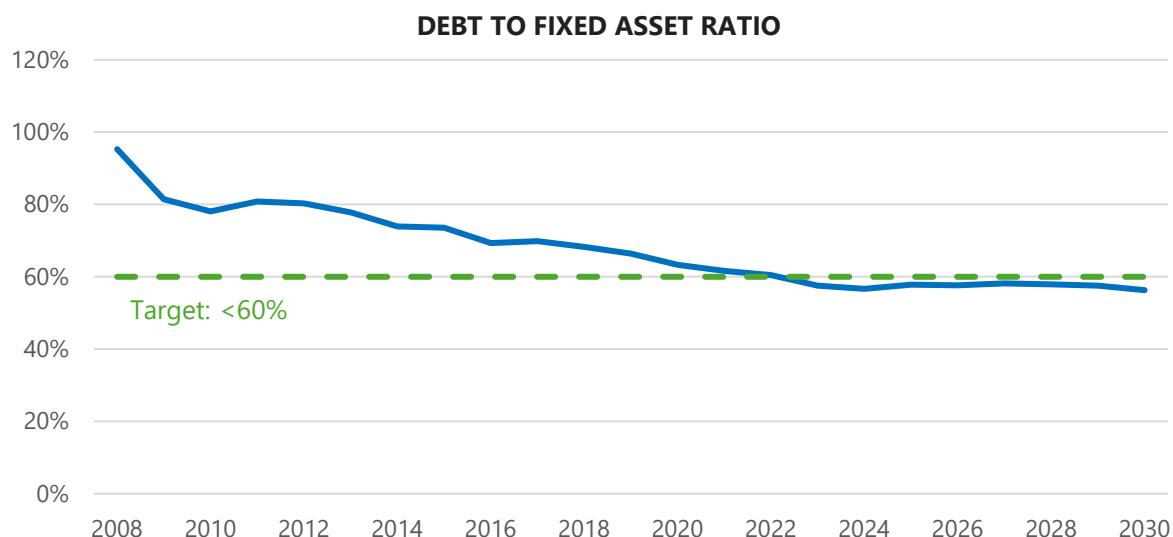
---

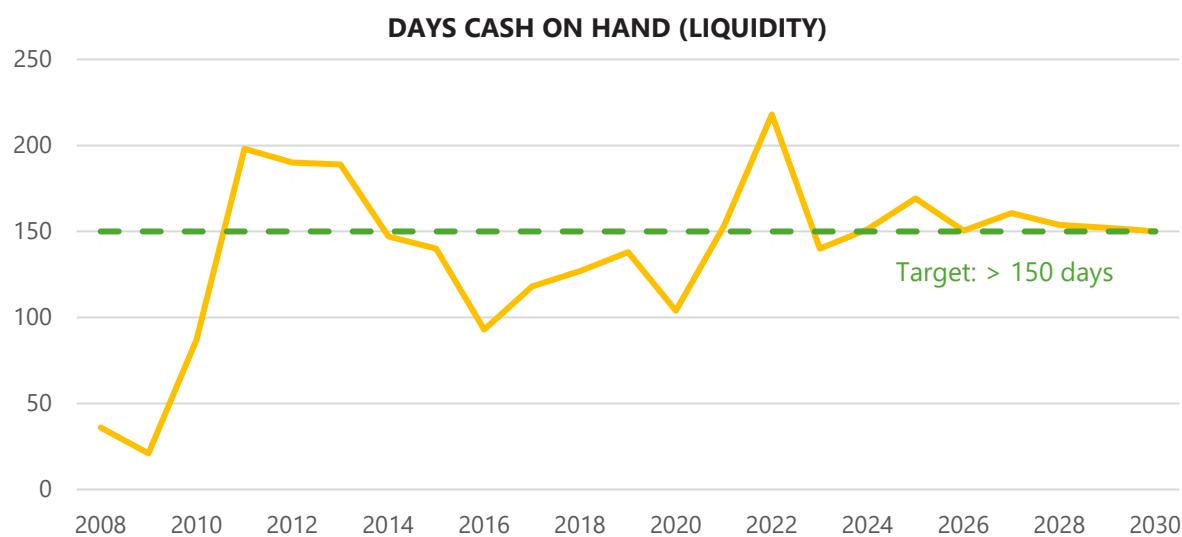
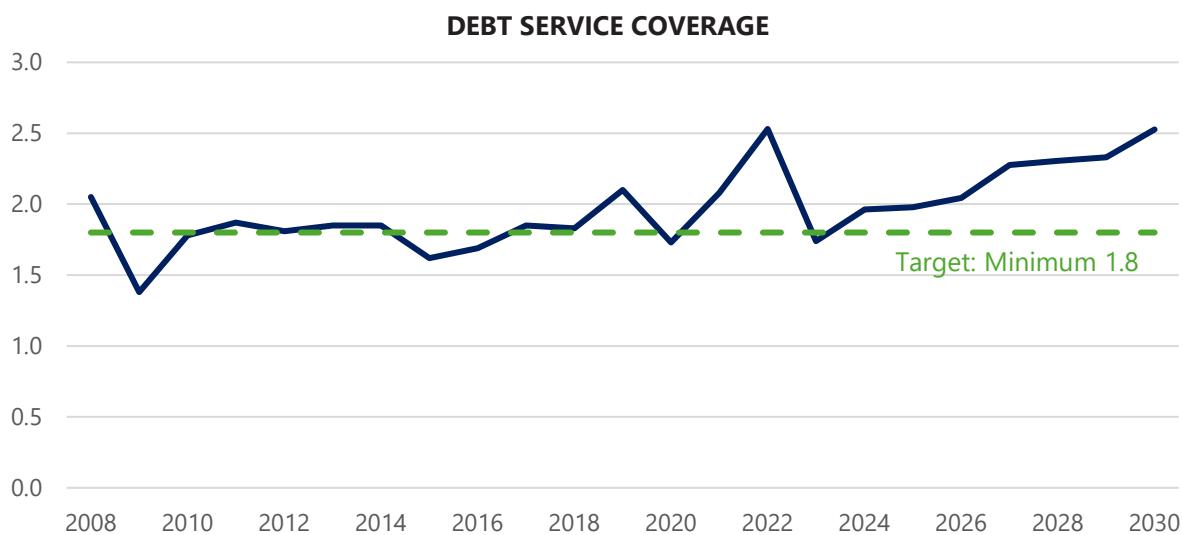
<sup>4</sup> An example of a possible exceptional circumstance is if City Light decided to build and own a large amount of new renewable power generation over a short period of time, which would require a significant amount of capital.

- The expected capital requirements are much larger, primarily from significantly higher anticipated relicensing costs, supporting electrification of buildings and vehicles and higher labor costs.

Both factors have added significant rate pressure. The current financial forecast shows City Light only slightly exceeding the capital funding target at 43% from operations, which is achieved with approximately 5% annual rate increases. In many ways the high capital cost scenarios that the utility was looking to buffer against are now the expected case. Increasing the portion of the expected capital requirements higher than 43% would require additional retail rate increases over 5% per year. In evaluating affordability for both current and future customers, City Light proposes that the current 43% is a sufficient trade-off between affordability and debt management. In future Strategic Plan updates, there may be more room to increase the percentage of the capital funding from operations to build more buffer to handle years of large capital outlays.

The below charts show the history and forecast of the financial metrics included in the proposed financial policies. The Revenue Requirements and associated rate path outlined in this report meet all the new proposed financial policies and overall put the utility in a much stronger financial position when compared to the past 20 years.





### METRIC CALCULATIONS

Debt Service Coverage =  $(\text{Operating Revenues} - \text{Operating Expenses} + \text{Cash Adjustments.} + \text{City Taxes}^5)/ \text{Debt Service}$

Debt-to-Fixed Asset Ratio =  $\text{Long-Term Debt} / (\text{Plant in Service net of Accumulated Depreciation} + \text{Construction Work in Progress})$

Capital Funding from Operations =  $6 \text{ Year Operating Funding} / (6 \text{ Year CIP} - 6 \text{ Year Contributions})$

Days Cash on Hand =  $(\text{Operating Account} + \text{RSA}) / ((\text{Operating Expenses} - \text{Depreciation and Amortization}^6) / 365)$

<sup>5</sup> Because City Light is part of the City of Seattle, taxes paid to the City of Seattle are considered junior lien to debt service and are not included in the taxes category when calculating debt service coverage.

<sup>6</sup> Also includes amortization (non-cash) amounts in operating expenses (i.e., hydro relicensing, energy efficiency)