

Resolution Number: 30685

A RESOLUTION adopting long-term rate setting objectives and electric rate policies for the City Light Department.

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Committee: Energy and Environmental Policy

Sponsor: GODDEN

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Text

A RESOLUTION adopting long-term rate setting objectives and electric rate policies for the City Light Department.

WHEREAS, in 1989, the City Council adopted Resolution 28004 establishing financial, cost of service, cost allocation, electric rate design and general policies to strike an appropriate balance among long-range objectives for the City Light Department; and

WHEREAS, on December 10, 2001, the City Council, adopted Resolution 30428 establishing financial guidelines for the Seattle City Light Department; and

WHEREAS, Ordinance 120811, passed by the City Council on May 28, 2002, put into effect new electricity rates for all classes of customers; and

WHEREAS, on March 15, 2004 the City Council adopted Resolution 30661, establishing a 2004-2005 work program that includes developing, reviewing and enacting electric rates for the Seattle City Light Department; and

WHEREAS, the City Council intends to make every effort to ensure that adopted electric rates remain unchanged for at least a two year period; and

WHEREAS, the City Council intends to adopt long-term rate setting objectives and electric rate policies for the City Light Department that supersede, reaffirm or refine the policies established by Resolution 28004; NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE AS FOLLOWS:

SECTION I. LONG TERM RATE-SETTING OBJECTIVES

The following are the adopted long-term rate-setting objectives of

the City of Seattle for the City Light Department. The objectives reaffirm and refine rate-setting policies currently in effect. The objectives are intended to provide a general policy framework that can be consistently applied to future electric rate reviews. Because some policy objectives may unavoidably conflict with others, they should be considered in their entirety to strike an appropriate balance among them when developing, reviewing and prescribing electric rates for customers of the City Light Department.

A. Revenue Requirement

Electric utility rates should be sufficient to meet the City Light Department's revenue requirements, while charging the lowest possible cost to the ratepayer over the long run.

B. Customer Payment of Costs of Service

Rates should be based on the costs of service to the customer. Rates should reflect changes in the costs of service over time.

C. Equity

Rates should reflect a fair apportionment of the different costs of providing service among groups of customers.

D. Efficiency

Rates should provide incentives for cost effective conservation of electricity and the efficient use of electric power resources.

E. Rate Stability

Rate levels and rate structures should be changed in an orderly manner over time.

F. Financial Stability

Revenue recovery from rates should promote financial stability, consistent with financial policies of the City Light Department, as adopted by the Seattle City Council.

G. Public Involvement

Citizens should be ensured clear and understandable information and opportunities for meaningful citizen participation in the City's rate decision process.

SECTION II. RATE REVIEW PROCESS

The rate review process is generally comprised of three steps, which are described below. While the documentation of each of the steps is done separately, the documents are the basis of a single complete rate proposal made by the Mayor, reviewed by the public, and reviewed and acted upon by the Seattle City Council.

A. Revenue Requirements Analysis

The first step in the rate review process is analysis of the revenues required to meet operating and maintenance expenses, and to finance a portion of the Department's Capital Improvement Program consistent with financial policies described in Section IV below. The Revenue Requirements Analysis documents the City Light Department's estimates of all relevant financial information over the period to be covered by the rate review. The analysis includes a recommendation for a City Council decision on a revenue level that determines the total dollar amounts to be included in rates to the Department's customers.

B. Cost of Service and Cost Allocation

In the second step of the rate review process, the cost of serving each rate group is analyzed. From this analysis, the share of the total revenue requirement to be collected from each group is determined. The cost of service and cost allocation study, which serves as a basis for cost allocations, is prepared by the City Light Department and supplemented by independent consultants as deemed appropriate by the Mayor and City Council.

If extraordinary events were to require an immediate adjustment in electric rates, the Department, with the concurrence of the Mayor and City Council, could be relieved of the responsibility for preparing a new cost-of-service study before proposing and implementing a new rate.

C. Rate Design

In the third step of the rate review process, rate schedules are designed to recover revenues from each rate group, as determined by the cost allocation procedure. In designing the rates for each group, the structure, components, and the relationship of the components of each rate are determined. A rate design report is prepared by the City Light Department, which includes recommendations on the rate design for each rate group and documentation of where the proposed rate design departs from cost-based rates.

SECTION III. INFORMATION TO CUSTOMERS AND RATEPAYER PARTICIPATION

Consistent with Resolution 25387, establishing the general policy of the City of Seattle governing the provision of public information and opportunities for citizen participation in the City's decision-making process, the City Light Department shall provide information to its customers and opportunities for ratepayer participation. To ensure citizen participation, City Light shall seek input from a variety of ratepayer sources, including a Rate Advisory Committee.

Pursuant to the PURPA Information to Consumers Standard, as adopted in Ordinance 109461, and revised in Ordinance 111528, the City Light Department shall comply with the policies and procedures listed below:

A. The City Light Department shall transmit to each of its customers a clear and concise summary of existing electric rate schedules applicable to each of the major rate groups.

B. The City Light Department shall transmit to its customers a

clear and concise explanation of the first set of proposed rate schedules submitted by the Mayor to the City Council. The explanation shall be communicated not later than sixty days after the Mayor submits his/her initial set of rate schedule proposals to the City Council.

In addition, at least one other time during the rate review process, the Department shall transmit to its customers a clear and concise explanation of the relevant set of rate schedule proposals under consideration by the City Council. The explanation shall precede the relevant City Council public hearing on said rate schedule proposals. The Chair of the Energy and Environmental Policy Committee, in consultation with the City Light Superintendent, shall determine which set of rate schedule proposals shall be so communicated, and the manner and timing for communicating it.

C. The Department shall transmit on each of its residential customer's bill, a clear and concise statement of the customer's actual consumption of electricity for the corresponding billing period during the prior year (unless the consumption data are not reasonably ascertainable by the utility). The itemized bill shall also clearly and concisely explain the basis upon which the customer is charged per unit of consumption.

SECTION IV. RATE SETTING POLICIES

The following electric rate policies are adopted. These policies supersede, reaffirm or refine the electric ratemaking policies established by Resolution 28004, which no longer shall have any force or effect. These policies are intended in their entirety to strike an appropriate balance among the long range objectives identified in Section I of this resolution. These policies are intended to provide overall guidance for the development, review and enactment of new electric rate structures. However, these policies may be revised in subsequent electric rate reviews and/or as a result of the work performed pursuant to the studies and analysis prepared for the next rate review.

A. Financial Policies

The City Light Department's revenues from electric rates shall be sufficient to meet the following financial policies established in Resolution 30428. These policies shall serve as the basis for developing the City Light Department's revenue requirements analysis, unless modified by subsequent Council action:

1. Rate Setting Guideline. It is the policy of the City of Seattle to set electric rates at levels which will ensure that net revenue available to fund capital requirements in each calendar year will be positive with a probability of at least 95%, taking into account the variability of cash flows resulting from the uncertainty of water conditions, market prices, and system load. For purposes of implementing this financial policy, net revenue available to fund capital requirements is defined as the amount of revenue remaining after payment of operating and maintenance costs, principal and interest on outstanding debt, taxes, deposits to the Bond Reserve Account, all other current obligations and deposits to the Contingency

Reserve Account described below.

2. Contingency Reserve Account. A Contingency Reserve Account will be established in the Light Fund. After payment of operating and maintenance expenses, principal and interest on outstanding debt, taxes, required deposits to the Bond Reserve Account and all other current obligations, available funds in the Light Fund shall be deposited in the Contingency Reserve Account until a balance of \$25 million is established. In order to provide a high probability that the Account will be fully funded within two years of the effective date of the first new rates established after the date of this resolution, annual revenue requirements shall be increased by \$12.5 million above the level required to meet the rate setting guideline in 1. above if there were no Contingency Reserve Account, until the targeted balance of \$25 million is established. However, in the first year following the effective date of such new rates, if net revenues are available in excess of the amount included in the forecast used to set rates, such excess funds may also be deposited in the Account, in addition to the expected deposit of \$12.5 million. These additional deposits would then reduce the funding required in the second year following the effective date.

Funds in the Account may be used to cover current obligations in any year in which the amount of net revenue available to fund capital requirements is not positive. Within two years of the withdrawal of funds from the Account, available net revenues shall be deposited in the Account until the targeted balance of \$25 million is restored.

3. Operating Cash Balance. In addition to funds in the Contingency Reserve Account, City Light shall maintain sufficient operating cash balances in the Light Fund to absorb fluctuations in its operating cash flow. In its rate proposals, the Department shall target a minimum month-end operating cash balance of \$30 million, an amount that is equal approximately to three months of non-power operating expenses.

B. Cost of Service and Cost Allocation Policies

The cost allocation methodology used by the City Light Department shall allocate the Department's energy, demand and customer costs among rate groups in a manner that is equitable, consistent with the long-range objectives listed in Section I of this resolution. The allocation of costs among rate groups should be determined by a cost of service study prepared consistent with the policies below.

1. A marginal cost of service study shall be filed with the next rate proposal. This study shall be the primary basis for allocating the cost of providing electric service to the rate groups.

2. By June 30, 2005, City Light shall submit an embedded cost of service study using the same time periods as the marginal cost study filed with the rate proposal.

3. If a change in the cost of service allocation results in rates that would cause extreme impacts on a particular rate group, a method of mitigating the rate impact may be considered and implemented.

4. Conservation expenditures shall be allocated to all rate groups.
5. The costs of rate assistance shall be allocated to all rate groups.
6. An analysis of policy options available to collect Bonneville power costs as included in the ten-year power sales contract approved in Ordinance 120068 shall be filed. The filing shall include a recommendation on a preferred method, as well as how the various options balance sending correct price signals with improving the financial stability of the utility.

C. Electric Rate Design Policies

1. To encourage conservation, rates shall be designed with increasing blocks where feasible and fair.
2. The Department shall investigate cost-effective time, time-of-use, and seasonal differentiation options where they can be implemented effectively and efficiently.
3. The Department shall consider imposing a fixed charge that balances stabilizing revenues and bills but that does not reduce the price signals to customers unnecessarily.
4. The impacts of the costs of electricity shall continue to be mitigated for the Department's low-income residential customers. Rate assistance provided to these customers shall be restored to 50% of the rates specified in the standard residential rate schedules over several rate periods.
5. In order to balance demand and energy price signals, the Department shall consider how to structure a demand charge that will send appropriate signals to customers with new service requests and for commercial and industrial customers to manage their loads.
6. The Department shall evaluate interruptible rates and discounts in the context of a full integrated resource planning process. No new interruptible rates or discounts shall be offered until the results of this evaluation have been reviewed to determine whether such rates or discounts shall be offered.
7. The Department shall consider whether an economic development program or rate can be justified on a cost-of-service basis. Any economic development incentive shall not be subsidized by other ratepayers and must demonstrate clear utility and ratepayer benefits.
8. The Department shall develop charges for customers requesting new or expanded service that reflects the full cost of this service. Such charges may include increased customer contributions in the form of letters of credit or upfront deposits, contract demand charges, demand ratchets or such other options as may be appropriate to assist in sending price signals to customers for more accurate estimates of load. Other charges, for example, increasing the power factor rate shall also be considered when these will better reflect the costs customers impose on the electric system.

9. The Department shall consider whether to continue to offer a third tier rate to residential customers. The evaluation shall include a determination of whether a third tier in the rate encourages conservation and whether this price signal is necessary.

D. General Policies

The Council hereby strongly reaffirms support for the language in SMC 21.49.110, Sections D and Section T. Section T establishes responsibility for the capital cost of undergrounding and Section D establishes the discretion for the Department to design a system and charge a customer when, solely due to aesthetics, the customer desires a change from standard service.

SECTION V. RESOLUTION 28004 SUPERSEDED

Resolution 28004 is hereby superseded and will have no further force or effect.

Adopted by the City Council the ____ day of _____, 2004, and signed by me in open session in authentication of its adoption this ____ day of _____, 2004.

President of the City Council

Filed by me this ____ day of _____, 2004.

City Clerk

(Seal)

Cab/cab

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June 10, 2004

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