Cost of Service Analysis (Proposed) Results
July 17, 2012

2013 Rate Increase

	Total	Residential	Small	Medium	Large	High Demand	Lights*
All Areas	4.4%	6.2%	3.4%	3.1%	5.3%	-3.3%	26.9%
City	3.6%	6.8%	3.8%	0.2%	0.2%	-4.1%	26.9%
Network	12.2%			12.0%	12.5%		
Tukwila+Shoreline	1.6%	4.8%	1.0%	-0.2%	-1.0%	-0.7%	
Other Suburbs	2.8%	4.0%	0.8%	-0.9%	0.2%		

2014 Rate Increase

	Total	Residential	Small	Medium	Large	High Demand	Lights*
All Areas	5.6%	6.3%	5.4%	5.3%	4.4%	6.1%	4.6%
City	5.6%	6.3%	5.4%	5.3%	3.4%	6.1%	4.6%
Network	5.4%			5.2%	5.5%		
Tukwila+Shoreline	5.6%	6.2%	5.3%	5.2%	3.4%	6.0%	
Other Suburbs	6.0%	6.3%	5.4%	5.3%	3.5%		

Higher Distribution Costs, Lower Energy Costs, Lower Wholesale Credit

$M	2007-2008	2013	Change
Energy	$477.1	$471.9	($5.2)
Distribution	$163.3	$255.5	$92.2
Other	$68.6	$73.7	$5.1
Total Operating Costs	$708.9	$801.0	$92.1
Wholesale Revenue Credit	$169.7	$90.0	($79.7)

Cost of service analysis shows that revenue requirement increases since 2007-2008 are driven by distribution cost increases. Energy costs are actually slightly lower compared to the last full rate review.

1. The updated costs and the associated allocation of those costs means that high energy use customers' (high demand, large) rates will go down, while rates for lower energy use customers (residential, small) will go up by comparison.
2. Network customers will be hit twice as hard by the distribution cost increases as radial customers, since the network redundancy (for higher reliability) essentially doubles distribution costs.
3. Higher downtown network costs indirectly impact City residential and City small commercial customers since there is no separate network rate for these classes. These two City classes absorb the higher costs associated with residential and small commercial customers in the downtown network. Residential network growth (e.g., Belltown) is a compounding driver; as noted, these higher costs are borne by City residential customers.
4. Suburban customers see additional benefit from reduced energy costs since a major portion of franchise contract payments are calculated as a percent of energy cost. (Larger customers see more benefit.)
5. Lower expectations of net wholesale revenue affects all customer classes negatively, since their credit for such revenue (which lowers their rates) is less than it was in the last rate case (2007-2008).

Across-the-board rate increases implemented since 2008 (cumulative ~25% system average) served to magnify the old allocation (roughly 2/3 energy, 1/3 retail service cost). Moving to this new allocation (roughly 60/40) requires substantial corrections that result in rate decreases for the largest customers.

*Streetlight bill increases are not the same as average rate increase per kWh. Monthly fixed streetlight bills include City Light-provided capital and O&M for fixtures, poles, etc. Example estimated General Fund 2013 bill increase is ~6% over 2012 budgeted amount for streetlights.