FAQ about Seattle City Light's Cost Allocation Process

Q - How many customer classes does City Light have and how are they determined?
A – City Light has six major customer classes and they are determined based on the costs and characteristics of serving customers of various sizes and types. The major customer classes are:

- Residential
- Small General Service
- Medium General Service
- Large General Service
- High Demand General Service
- Streetlights

Q – What is the revenue requirement?
A – It is the amount of money City Light has to collect from customers in a given year in order to cover its costs and meet the City Council's mandated financial policy targets.

Q – What is cost allocation?
A – It is the process of dividing up the revenue requirement into portions to be paid by each customer class according to the costs that class imposes on the system.

Q – What kind of method does City Light use for its cost allocation?
A - City Light uses what is known as a marginal cost method for cost allocation. Marginal costs can be thought of as the cost of the next unit of service, e.g., of energy or of adding a customer.

Q – Why does City Light use marginal costs for cost allocation?
A – It promotes the best use of society's resources. Rates based on marginal costs can be structured to encourage energy conservation.

Q – How does City Light use marginal costs to divide up the revenue requirement?
A - City Light first divides the revenue requirement into its component functions. Then it divides up the marginal costs into those same functions. The primary functions are Energy, Distribution and Customer Service. Each customer class is allocated a portion of the revenue requirement related to a given function according to its marginal cost responsibility for that same function. For example, a customer class that is responsible for 10% of the marginal cost of energy will be allocated 10% of the revenue requirement related to energy.

Q – What data are used to determine the marginal cost of energy?
A – City Light uses wholesale market price forecasts for peak and offpeak megawatt-hours (MWh), environmental externality costs (such as the cost of carbon emissions) per MWh, and long-distance transmission costs per megawatt (MW).

Q – What information is used to determine the marginal cost of distribution?
A – Current replacement costs per MW of capacity for substations, wires and transformers, and recent meter costs.

Q – What costs are used to calculate the marginal cost of customer service?
A – Recent costs recorded for billing, meter reading, uncollectibles and customer assistance.