

City Light Review Panel Rate Design Stakeholder Outreach

Attendees:

Attendee	Organization	Oct 9	Oct 23
Jeremy Keller	Ameresco	X	
Stan Price	Putnam Price Group	X	
Joni Bosh	NWEC	X	
Amy Wheelless	NWEC	X	
Bonnie Hemphill	A & R Solar		
Jessica Rose	Sound Transit	X	
Mikel Hansen	Sabey Corporation		X
John Sasser	Sabey Corporation		X
Emiliano Sanchez-Pedraza	Urban Renaissance Group		
Brad Middleton	Urban Renaissance Group		
Dave Gering	Manufacturing Industrial Council (MIC)	X	
Marcos Wanless	Seattle Latino Metro Chamber		X
Joe Malaspino	Kidder Mathews	X	
Craig DeLalla	Sound Transit		
David Broustis	King County Department of Natural Resources and Parks		X
Christina Arcidy	City of Shoreline		
Michael Karp	The Energy Project		X
Cameron Findlay (observing only)	SPU	X	
Maria Coe (observing only)	SPU	X	

Written Comments:

Thomas O'Keefe
James Adcock
Rob Harmon

Documents included with email invitation:

1. Letter to Stakeholders from Review Panel (includes meeting agenda)
2. Stakeholder Questions
3. Rate Design Situation Assessment
4. Rate Design Framework and Assessment of Current Rate Structure
5. Review Panel Letter to Councilmember Mosqueda regarding Rate Design Work Plan
6. Map to 901 5th Avenue Building

Summary of key concerns:

- SCL charges Residential customers an artificially low rate, effectively having Industrial customers subsidize their rates.
 - Seattle ranks 5 of 100 markets for residential customer rates
 - Seattle ranks 80 of 100 markets for industrial customer rates
 - Electricity is a top 5 OpEx for industrial customers. It is not for residential customers.
 - *Note: SCL has claimed in the past that is not the case, and that they are designing rates based on cost of service. My assertion is based on a comparison with other utilities across the US.*
- Tukwila industrial rates (HDT) are more than 8% higher than Seattle industrial rates (HDC).
 - This is because of double taxation (Seattle and Tukwila)
 - SCL will likely claim that is not the case, as the Tukwila franchise agreement specifically prohibits them making the 6% Tukwila franchise fee a part of the rate differential with other customers.
 - However, there is no other true rationale for the differential. At least in the case of the HDC / HDT rates, I strongly believe SCL manipulates the numbers to favor Seattle customers and the City of Seattle
 - The energy rate differential exceeds the 8% allowable by the Tukwila franchise agreement
- Energy rates comprise ~93% of the total bill. The franchise agreement states them as approximately 60% of the total bill.
 - SCL's industrial rates have an artificially low demand rate, which favors customers with low load factors.
 - This does not accurately reflect cost of service. The infrastructure required to serve a customer is based most closely on their peak demand, not their energy use. That is why most utilities have higher demand charges, designed to recoup the utility's costs for installing infrastructure. Energy rates are typically focused on recovering the cost to generate (or purchase) electricity.

Proposed Solutions:

1. Do another rate review on the HDT and HDC rates. Make it fair based on the few customers that exist (not some theoretical worst-case marginal cost scenario).
2. Charge Tukwila customers Tukwila taxes and not Seattle taxes.
 - a. State this clearly in the new franchise agreement.
 - b. Other utilities do not charge utility taxes based on the location of the utility HQ – they charge utility taxes based upon the location of the customer.
3. Redesign the industrial (High Demand and Large General Service) rates, reducing energy costs and increasing demand costs.
4. Restructure the industrial, commercial and residential rates based on an unbiased analysis of cost of serving those customer classes.

October 23, 2018

Patrick Jablonski
Seattle City Light Review Panel Chair

Dear Mr. Jablonski and panel members,

Thank you for the opportunity to make comments regarding the questions posed for stakeholders. The Energy Project has been representing the interests of low-income households throughout Washington State since 1993. The project is a partnership between the WA Department of Commerce and the Washington State Community Action Partnership. The agencies we represent within the SCL service area are Byrd Barr Place, The Multi-Service Center, and HopeLink.

All three agencies are federally designated anti-poverty organizations that deliver federal Low-Income Home Energy Assistance to Seattle City Light (SCL) low-income ratepayers in partnership with the utility. The Energy Project and the three agencies also participate in the SCL low-income advisory committee. Our comments and recommendations today are focused on our concerns that, if not properly constructed, a rate redesign could have negative impacts on tens of thousands of SCL low-income ratepayers.

BACKGROUND

According to a recent University of Washington Center for Studies in Demography and Ecology analysis for SCL, the pool of prospective eligible ratepayers for the UDP is approximately 109,000 households. Currently only 19% of those households participate in the Utility Discount Program (UDP). The UDP helps to preserve affordability for low-income customers, however the vast majority of eligible customers are not enrolled in the program. All customers are impacted by a utility's rate design and those with the lowest incomes are especially vulnerable if a rate design decreases affordability.

When evaluating rate design, it is important that equity concerns such as the potential for increased energy burdens (low-income households paying a higher percentage of their household income for energy than other households) be taken into consideration when deciding on the right mix of volumetric rates, basic customer charge, and other fixed charges. For example, the sizing and pricing for the first block of power, which we consider the lifeline block, is critical.

Utility affordability is also impacted by the building structure that customers reside in. Many low-income households live in substandard and energy inefficient housing stock. This presents additional challenges for maintaining affordable utility bills. The low-Income Weatherization Assistance Program is a critical element in addressing this issue.

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RECOMMENDATIONS

1. SCL should confirm its commitment to providing stable, affordable, predictable bills for low-income customers with appropriate assistance programs and consumer protections.
2. Utilize the SCL Low-Income Advisory Committee for the organization of a facilitated workshop focused on creating a recommendation to the Review Committee about a rate design that includes mitigation of potential negative impacts on low-income ratepayers. Topics to explore include the mix of volumetric and fixed or base customer charges, size and price for the lifeline block of power, time of use rates, and sizing and price of additional blocks of power within the context of revenue requirements.
3. Sponsor learning sessions, at a minimum sited at the three federally non-profit agencies in their service area that deliver the LIHEAP program so that the low-income public has an opportunity to learn more about the relationship of rates on their bills, and some of the other considerations offered by the Review Committee.
4. Engage the SCL Low-Income Advisory Committee in an evaluation of the UDP including eligibility criteria, amount of the bill discount, and outreach strategies with a report back to the Review Committee.
5. Prioritize and target whole house weatherization including energy efficient appliances to identified low-income high energy users as a part of a comprehensive rate re-design package.
6. In SCL's public outreach about the need for increased rates, be upfront and clear about both the flat revenue projections as a cause but also about the role of large capital expenditures, including cost over runs as part of the story.
7. As all residential customers, including low-income, benefit from the utility's progressive mix of power sources we recommend that SCL is careful in not pitting the needs of low-income versus solar or other sustainable renewable resources and environmental considerations.

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Again, thank you for the opportunity to make comments regarding rate redesign discussion. Please do not hesitate to call or email for additional discussion on our submitted recommendations.

Respectfully submitted,

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NW Energy Coalition Response for Request for Comments
SCL Design Restructure hearing
10/9/2018

(NWEC)

We appreciate this opportunity to share some concerns and suggestions on possible rate restructuring at Seattle City Light (SCL). Calculating the overall revenue needs is straightforward math, determining who foots what part of that revenue via bill payments is more challenging and is shaped by data and policy goals.

While we understand the Review Panel will only look closely at the residential rates, we think it is important to highlight several parts of the overall rate setting process and underlying assumptions. Ultimately, those assumptions may be justified, but we would still urge SCL to undertake a number of analyses to see if there are more effective approaches for the Council to consider. Since the rate structure has not changed much in several decades, now is the right time to conduct some thorough analysis on alternatives, modifications or other changes so the rates can more closely align with more recent City policies on climate change, low income assistance and other concerns.

In conducting rate analysis and design changes, the Coalition emphasizes that it is critically important to undertake data collection and analysis regarding impacts to low-income customers. Low-income customers typically have a much higher energy burden than other customers – the amount of their total income paid to maintain electric and natural gas services. Consequently, decisions in this area may have a greater impact on these customers and their ability to maintain consistent electric service. SCL has a tradition of considering these customers and should continue to improve these efforts as the consideration of rate design changes are undertaken. We suggest SCL review best practices for data collection and analysis of low-income customers in rate design processes and also explore specific options for improving affordability for these customers.

Revenue Requirement Calculations

We urge SCL to review the impact of the debt ratio on rates and ultimately, bills. Excessive debt service coverage makes today's ratepayers subsidize tomorrow's rate payers. Currently, the Debt Ratio established by City Council resolution sets the debt multiplier at 1.8%. That multiplier, as we understand it, is applied to the amount of debt that must be repaid during the rate period, recovered through rates.

The argument for a high ratio is the bond market will provide lower interest rates for SCL bonds, confident that by over-collecting, SCL will be able to make the required payments. While SCL and Moody's treat tax payments differently, it is time to re-assess the exact impact various debt ratios might have on the bond rating and interest rates, as the ratings do not depend on a single factor, such as the debt ratio. The SCL paper, Comparing City Light Financial Policies to Peer Utilities, January 2016, quotes Moody's "that SCL's ratings could be downgraded if the RSA mechanism is removed or weakened, the city council's willingness to increase rates drop into the BAA category, including days cash on hand below 90 days or Moody's adjusted SDCR below 1.5 times on a sustained basis."

Suggested analysis:

- A. Calculate revenue needs with the debt ratio at 1.5%. Calculate necessary debt ratio with residential and general service decoupling (see suggested analysis on decoupling).
- B. Run an analysis with decoupled residential rates and general service rates. Stabilizing revenue from those rate classes might also have a positive impact on Debt service coverage ratios and interest rates.

Cost of Service and Cost Allocation

Cost allocations and rate structures are not static – they evolve over time – for example, in 1986 the Council created from the previous single nonresidential class *three* general service classes - small, medium and large - based on demand, then in 1989 split large into large and High demand general service classes. In 1999 the Council then created a further distinction based on specific areas of the territory - City network and suburban. It is time to consider further changes to this framework.

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Suggested analysis:

- A. Conduct separate rate analyses for single-family and multi-family customers, recognizing that multi-family service costs less and high-density, compact service areas subsidize low density service areas.
- B. Do a separate rate analysis for the suburban cities system, recognizing the lower density and higher distribution costs in the suburban service areas compared to Seattle's compact and dense service area.
- C. Depending upon the results of the urban/suburban rate analysis, consider applying higher cost-based rates outside the City limits, as the suburban customers currently pay the same rates – but may cost more to serve. Currently suburban bills may look higher, but that is a result of taxes imposed by those jurisdictions, not by differential rates.

Even though the residential class has by far and away the most class members, commercial and Industrial customers together consume twice as much energy as residential customers and are responsible for nearly two thirds of coincident peak demand. Since Seattle customers would probably be PSE customers if SCL didn't exist, exploring the differences between the rates of the two utilities could be instructive. For example, SCL residential customers pay 86% of what PSE residential customers pay, while a SCL industrial customers pay only 76% of what PSE industrial customers pay – we think it a worthwhile exercise to examine the size of the subsidy residential customers provide to industrial customers. One way to assess that would be to apply PSE's class rates to SCL's classes and see what the revenue differences might be. The benefits of public power should not be unevenly applied.

Suggested analysis:

- A. For purposes of comparison, calculate the hypothetical revenue derived by applying Puget Sound Energy's rates to all Seattle customers.

Rates

When it comes to specific rate design, there are a number of policy guidelines that should prevail, which we have shared previously and repeat here:

- Rates should be straightforward and understandable.
- Rates should keep the utility viable and provide relatively stable cash flow and revenues from year to year.
- Rates should be generally predictable, such that customers experience only minimal unexpected changes.
- Rates should recover system costs in proportion to how much electricity customers use and when they use it. Customers delivering power to the grid should receive full and fair value for the power delivered – no more and no less.
- Rates should maintain fairness between customer classes and not discriminate against any group of customers – no special rates, tariffs or fees should be created or imposed exclusively for distributed solar or other renewable customers in a rate class, either individually or as a class.
- Rates, combined with subsidy and discount programs, should be affordable so that all households have access to electricity.
- Rates should encourage a clean, efficient energy system and maximize the value of new technologies, including beneficial electrification, to reduce greenhouse gas emissions and local air pollution
- Rates should promote economic efficiency in the use of energy and as well as competing products and services, discourage wasteful usage all while insuring the level of reliability desired by customers.
- An overall rate structure should be designed to balance long and short-term marginal value and reduce overall system costs and risks.

Raising fixed customer charges: We have already expressed concern with the notion SCL has floated of increasing the base service charge to cover increasing "fixed costs" (along with decreased volumetric charges) as a possible fix for the problem of decreasing revenue collected due to inaccurate load trend assumptions over the last couple of years. We want to underline that "fixed costs" DO NOT equate to "fixed charges" nor should they be treated as

such in any analyses or explanation. Fixed costs, such as capital expenditures, distribution and transmission services, maintenance, administration, operation, labor and others costs, should be recovered through variable volumetric charges.

Increasing the fixed portion of a customer bill, the base service charge, can have very negative impacts on low and moderate-income household (LMI HH), discourage the installation of distributed renewable power, such as solar, discourage and reduce energy efficiency and possibly lead to more infrastructure over time. This approach has the unhappy effect of penalizing those who are frugal, efficient or cannot afford to use much energy, making them subsidize those who use large amounts of energy. While the argument has been raised that large users should not subsidize small users, the problem is the large users are eventually the reason for new infrastructure that increases rates.

We would not support rate modifications that discriminate against one sub group of a rate class. It has been implied in a number of documents distributed by staff that distributed generation solar, which presently accounts for around less than 1% of retail load, is the only cause for cost shifts worth mentioning. We would respectfully disagree. Such an assertion is a narrow assessment that does not consider the benefits distributed energy can provide to other customers and the grid. There are much more substantial cost shifts *already* embedded in the current rate structure that could be corrected. For example, it is generally much less expensive to service 100 apartment dwellers in a single building than 20 single family homes spaced out over a half mile, yet the apartment dweller pays the same customer charge and volumetric rates as a single-family home owner.

In 1997 the City replaced the residential "minimum charge" with a "customer charge" (now referred to as the base service charge), which was designed to cover *half* of the marginal customer-related costs. It is time to revisit that policy; it may be the Council would choose to continue some sort of reduction in the customer charge, but it should do so only after considering new analyses. One new analysis should recalculate the base customer charge using the principles that the base service charge should only recover customer specific costs that change with the number of customers, such as billing, meters, meter reading, service drop and the portion of customer service dedicated to residential customers. There are some costs currently included in the base service charge calculation that do not belong in a base service charge, such as un-collectibles (FERC codes 904XX), sales and marketing expenses (FERC codes 908XX), as well as most of the credit and collection expense (most of the FERC codes 903XX), which are mostly volume related (page 59, 3.5.1 Customer Service Costs, COSACAR).

Suggested analysis:

- A. SCL should calculate what a basic customer charges for single family and multi-family classes would be, based only on those costs directly related to serving residential customers - billing, meters, meter reading, the portion of customer service dedicated to residential customers and service drop. Infrastructure, transmission, distribution, or other system costs should be assigned to volumetric rate recovery. This approach recognizes that low customer charges encourage conservation and efficiency, while high customer charges punish the frugal and those who can't afford to use a lot of energy. Low customer charge meets the principles:
 - a. The base service charge should recover only customer-specific costs that change with the number of customers.
 - b. A customer should be allowed to connect to the grid for no more than the cost of connecting to the grid.
 - c. All grid costs should be recovered in per-kWh prices.

Block rate adjustments: Seattle's existing block rates have altered a bit over the years. There are presently two inclining blocks, but in the past there have been three. The blocks were originally designed to price the upper block at the long run marginal cost (around .10 cents at the time), but also ensure basic access for essential electricity needs at an affordable cost for low income customers, as well as encourage conservation. These are all worthy policy goals.

The SCL Inclining Block Rates appropriately share the limited low-cost hydropower from Skagit and Box Canyon among all SCL ratepayers, while recognizing that higher usage is more expensive to serve, as other resources must be obtained. For example, electric heat is more expensive to serve because it is variable and high loads from large homes should be more expensive than low loads from small homes or apartments.

Suggested analysis

- A. Examine the size of the first block, to make sure it still covers essential electric needs for customers, since that has not been adjusted in many years; it may well need to be increased. Determine a cap for the second block and add a third block for high use above the second inclining block. With the implementation of AMI, SCL will be able to locate consistent high consumers and target those high users for conservation or assistance programs.

Time of Use: Time of Use (TOU) rates, either hourly or seasonal, are becoming ever more common, but have been harder to justify in an area with a moderate climate. However, if capacity needs are what SCL is most concerned about in the future, then one or two critical TOU periods of no more than a few hours with significant price increases would encourage both lower customer consumption at those times and expand affordable and targeted demand response options while shifting system use to lower use/cost time periods. In order to encourage various forms of vehicle electrification, without penalizing other customers, SCL will need to move vehicle charging to non-high demand times.

Suggested analysis:

- A. Conduct a rate analysis that imposes a daily TOU that includes a very few hours per day related to the system peak and a seasonal TOU rate, and overlay both on the inclining block rate.

Decoupling: Seattle has already taken a progressive step towards decoupling with the RSA approach to leveling wholesale sales over the years. The RSA is explicitly mentioned by Moody's as one of the key factors contributing to SCL's rating. The same approach could be applied to residential and some or all of the general service customers.

As explained in Revenue Regulation and Decoupling: A Guide to Theory and Application (RAP, June 2011, page 40), *"The rating agencies look at the TIER (times interest earned ratio) of COUs. Typical bond covenants for COUs obligate the utility to maintain its TIER above a minimum defined level, so they might be required to raise rates if they suffered severe earnings attrition (from any cause). A loss of revenue due to conservation, weather, or other factors can impair the TIER, and therefore the borrowing capacity of a COU. A decoupling mechanism will provide the same stability of earnings for a COU as for an investor-owned utility (IOU). A decoupling mechanism may thus allow a COU to set rates at a slightly lower level, without fear that a variation in weather or sales will cause it to fall to a level that would trigger a larger rate adjustment"*.

The fact that sales revenues for SCL turned upward again in 2017, despite dropping precipitously for several years and all while load remained low, speaks to the variability of hydro resources, weather and load projection that might well be balanced by a decoupling mechanism.

Suggested analysis:

- A. Conduct an analysis of decoupling, to further encourage conservation and low-income support programs without hurting revenue.
- B. Assess if decoupling would allow the debt ratio to be reduced.

We look forward to working with SCL on re-examining the steps that lead to the final customer bill from revenue allocation to rate design.

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Seattle City Light Review Panel
Questions for Rate Design Stakeholders from Rob Harmon

1. What opportunities for improvement do you see in the current City Light rate structures?

Decoupling would help resolve short-term revenue requirement issues if the rate stabilization account no longer meets that purpose.

2. What outcomes do you want rate design to promote?

Promote EE and DG and lower long-run marginal costs. SCL should be able to buy and sell EE as an actual resource, as they do with the Bullitt Center.

3. How would you prioritize the eight key policy goals identified by City Light (see Rate Design Framework and Assessment of Current Rate Structure document) and why?

- 1) Environmental stewardship is not explicitly identified in rate design policies. It should be. Without a sustainable environment, there is nothing for the utility to serve.
- 2) Fully enroll all qualified households in the utility discount program.
- 3) Rates must meet the revenue requirement. Decoupling the utility and better forecasting is the best path to ensure that outcome. There are many ways to collect revenue. Significantly increasing fixed charges should not be one of them.
- 4) I worry about how different people define "economic efficiency." What I don't hear from SCL is acknowledgement that EE and DG reduce long run marginal costs. I fear that discussions of "economic efficiency" are a way of getting what many past leaders of SCL have wanted – higher fixed charges. Higher fixed charges make the job of utility staff easier, but they are precisely contrary to society's needs and the goal of lowering long run marginal costs.

I agree that it is essential to regularly update our understanding of what it costs to serve customers. However, that is about understanding both short- and long-term costs.

- 5) The problem with "Fairly apportion(ing) cost of service" is that one person's "fair" is not the same as another person's "fair." Customer distance from a transformer is but one example. I fear this is also an attempt to simply raise fixed costs to make managing the utility easier, in lieu of properly decoupling the utility. As RAPP has

so eloquently stated, when one connects to the food grid, one only has to pay the cost of getting to the point of interconnection. There is no fixed charge for entering the grocery store. There is no fixed charge for walking down the aisle. There is fixed charge for the trucks that deliver the food. There is fixed charge for the grocery store's debt. All of that is paid in the marginal cost of the food one buys.

- 6) The best way to achieve stable rates is to decouple the utility and pursue aggressive EE implementation. Education is another essential element if one wishes to help folks understand that when the weather changes, so will their energy bills.
- 7) Stable revenue for the utility sounds like a very good idea. It can be achieved by decoupling the utility, aggressively pursuing EE to minimize wholesale power exposure, electrifying transportation and better forecasting. Stabilizing revenue by increasing fixed charges is precisely the wrong approach.
- 8) "Simple, understandable rates" is a fine goal. But it is less essential than the items above.

4. What alternative rate structure options would be of interest to you and why? (for example, time of use rates or premium green power options, decoupling, higher fixed charges, etc.) What data can you share that indicates the option(s) you advocate would support the outcomes that are important to you?

- I don't know if time of use rates are appropriate for SCL.
- All customers should have the option of buying a premium green power product that changes the mix toward more new renewables and EE.
- Decoupling is a good idea and will help stabilize rate volatility in the short run. It does not solve the "lost unit" issue with EE and DG. MEETS (EEaas) does solve those issues and should be expanded significantly and soon.
- Higher fixed charges are a huge mistake. They may solve a short-term management problem, but they *increase* long run marginal costs because they reduce EE and DG. EE and DG *lower* long run marginal costs because they decrease the amount of infrastructure SCL must build to meet load. SCL is a monopoly. It is not facing competition from competitors. It does not need to increase fixed charges to protect itself from competition.

To: Seattle City Council

From: Manufacturing Industrial Council (MIC)

Date: October 9, 2018

Re: Seattle City Light Rate Design

Introduction

The Seattle City Council asked interested parties to provide comments on four key issues in regard to Seattle City Light's (SCL) current rate design. Since their origin, the Strategic Plans developed by SCL have resulted in continued rate increases for customers with no end in sight.

On July 9, 2018, the City Council approved SCL's 2019-2024 six-year Strategic Plan, which calls for rate hikes averaging 4.5 percent annually. These rate increases represent a total rate increase of 30 percent over that period. The rates would be even higher had Mayor Durkan not responded to the SCL Review Panel concerns of unsustainable increases, subsequently cutting \$350 million out of the costs over the six-year period.

The Manufacturing Industrial Council (MIC) represents a diverse group of approximately 60 industrial and commercial businesses in Seattle, who provide a significant number of high-paying technical jobs in Seattle, world-class manufacturing that competes in a global market, as well as contributing taxes and other benefits to the city.

MIC provides the following comments.

1. What opportunities for improvement do you see in current City Light rate structures?

- **Rates need to be competitive, stable and predictable.**
 - The continued SCL rate increases that outpace inflation are not sustainable for larger energy users.
 - Although SCL boasts of having among the lowest rates in the country, it is not true for high-demand customers. Some MIC members have much lower rates in other parts of the country – even without access to the significant low-cost hydro electric resources owned and managed by SCL. One MIC member's SCL rates are 40% to 159% higher than the rates at 18 of its other facilities around the United States.
 - Electricity is among the largest operating cost components for large energy users.
 - Many manufacturers in Seattle compete regionally and globally; thus, they cannot simply pass on the increased cost of electricity to their customers and continue to operate. Rates need to stabilize so that companies can retain their competitive edge and continue to remain a key part of the Seattle economy.
 - Because electricity is such a significant cost component to their operations, industrial, high-demand customers invest substantial amounts of money into energy efficiency and conservation. In other words, industrial customers are already doing their part to keep their bills as low as possible.

- Manufacturing and industrial customers make considerable, long-term capital investments and need certainty in the return of those investments. Ongoing rate increases and uncertainty make it difficult for companies to commit to expanding and/or improving their facilities in Seattle.

2. What outcomes do you want rate design to promote?

- **Long-term health of the utility without continued increases**

- Rates should closely match the cost structure and align costs to serve customer classes. As noted in SCL's documents provided to the Seattle City Council, the utility has had five straight years of retail revenue decline,¹ due primarily to reductions in residential energy use. A continued reduction in residential sales is illustrated in the 2017-2022 Strategic Plan Update Financial Forecast, whereas High Demand customers are projected to have increased usage.²

It is clear that SCL's multi-year revenue declines are not due to industrial energy users. On the contrary, with their dependable load, industrial energy users help stabilize SCL's revenues in the face of declining usage by other customer classes.

SCL must find ways to address its revenue declines from non-industrial customers through improvements in rate design for residential and small commercial customers, instead of shifting added cost burdens to the High Demand customers.

- Rate stability and predictability.
- Development of innovative rate designs, including interruptible rate options for large customers, more effective use of the Rate Stabilization Account funds, etc.
- Accountability for the utility to stay within its operating budgets.

3. How would you prioritize the eight key rate design policy goals identified by SCL and why?

(1) *Rates are simple, understandable, and feasible*

SCL needs to advance more customer choice pricing programs that benefit both the customer and the utility. The utility is currently one of only a few Northwest utilities that do not currently offer load curtailment or interruptible tariff mechanisms for large industrial and commercial customers.

(5) *Fairly apportion cost of service*

Rates need to be set so that they collect the appropriate amount of revenue from each customer class, recognizing benefits provided by the customer or the customer's class (efficient load factors, interruptibility, etc).

(4) *Provide stable, predictable bills for customers*

Industrial energy users are a crucial part of the city and state economy and they must compete regionally, nationally and globally. Rate stability is a necessity for companies to remain competitive and as a vital part of the economy. Being able to

¹ Costs and Revenue Report provided to the Seattle Energy and Environment Committee on June 27, 2017.

² Strategic Plan Update 2017-2022: Financial Forecast Assumptions, Page 15.

predict *stable* energy costs – not rates that are expected to increase year after year – is a key component in the decision-making for industrial energy users to keep their facilities in Seattle and to make significant, long-term capital investments that benefit the region, state and communities.

(2) ***Rates collect revenue requirement***

Rates should be sufficient to collect the revenue requirement from customers, along with the net wholesale revenue forecast that has continued to be reduced such that SCL is less vulnerable to market changes and hydro availability.

(6) ***Promote energy efficiency***

Structure rates using time-of-use and other tools if feasible to encourage conservation and the efficient use of energy.

(8) ***Environmental Stewardship***

Environmental stewardship isn't currently part of rates, although there are a few programs designed to encourage customers to invest in carbon-reducing new energy technology. This is an area where industrial energy users are already spending significant funds to conserve energy and reduce their carbon footprints. As the potential for a state carbon tax moves closer to reality in the State of Washington, SCL is in an advantageous position where carbon costs will most likely leave them unaffected.

(7) ***Social Justice***

MIC supports the continued low-income program.

4. What alternative rate structure options would be of interest to you and why?

- There are numerous innovative rate structures that could stabilize the utility while keeping rates lower by utilizing the advantages SCL already has.
 - **Demand Response/Interruptibility.** In the Pacific Northwest there are now greater needs for energy shaping, winter peaking, transmission congestion relief, load following, firming renewable energy, as well as addressing supply constraints due to expected water scarcity in the region. More and more demand response programs are being implemented by Pacific Northwest utilities and the region as policy to help resolve these growing challenges.

Demand response resources can qualify as operating reserves to help utilities like SCL meet their reliability reserve requirements. This frees up other utility resources to sell power into the wholesale market, earning additional revenues for the benefit of the entire utility system.

In Early 2020, SCL will be joining the Energy Imbalance Market (EIM). The EIM is a real-time wholesale energy trading market that enables participants anywhere in the west to buy and sell energy when needed. The EIM has generated \$401 million in gross benefits since its formation in November 2014 amongst the utilities who are

EIM members. The addition of demand response resources can allow SCL to better leverage its resources for sale into the EIM when it joins.³

The ability to interrupt a customer's high-load power in times of system power and transmission constraints is a tool used by utilities all over the country, as well as being part of SCL's rate plans over a decade ago. Having that capability reduces or eliminates the potential for brownouts or blackouts, as well as the need to buy expensive power on the market in extreme weather conditions or other situations mentioned above.

The SCL Review Panel has indicated to SCL in the past few years that it is interested in analyzing the need for Demand Response to meet peaking needs and to integrate intermittent renewable in the SCL system in 2016. Also, in 2011, the Seattle City Council passed Resolution 31282 requiring the utility to "consider reinstating interruptible rates as a demand management tool."⁴ No action has been taken to reinstate the interruptibility tariff.

- o **More Effective Use of the Rate Stabilization Account**

The Rate Stabilization Account (RSA) was established in 2011 to reduce retail revenue risk when net wholesale revenue (NWR) was lower than forecasted. The original \$100 million RSA balance was financed primarily by customers. Initial surcharges were designed to be "triggered" when the balance dropped below \$90 million, and other lower levels that were accompanied by higher surcharges. The reason for the RSA was not only to reduce risk, but to possibly avoid the potential for rate increases, *which it has not done*.

In 2017, City Council staff member, Tony Kilduff, made a recommendation to the City Council to lower the threshold for the first trigger from \$90 million to \$70 million, or to use the RSA, combined with net wholesale revenues, as a "management tool" to provide financial stability, allow the RSA to buffer more naturally, reduce the probability of customer surcharges, and reduce potential volatility in customer surcharges⁵; it puts the RSA money already paid by ratepayers to work for them, instead of just earning interest in the bank. No changes have been adopted.

The Review Panel itself in the past few years has recommended the elimination of the RSA and returning the funds to customers through reduced rates or to mitigate future increases. The surcharge has virtually become an additional customer rate increase on top of annual increases that are based on forecasted revenue requirement.

The RSA account (at \$91.1 million according to the July 2018 SCL financial report to Mayor Durkin) is one of the largest, if not THE largest, type of accounts that is used to offset lost revenues by a public utility. With the reduced net wholesale revenue forecast that is now lined up more closely with actual revenues, there is no significant

³ In a presentation to the Seattle City Council, SCL identified that its flexible hydro generation will be beneficial to the EIM by improving the ability to integrate renewable resources by which SCL will be compensated for providing the needed grid flexibility. SCL owns significant hydro at the Boundary Dam (1 GW) and over 700 MW from the Skagit River projects.

⁴ SCL Resolution 31282 (April 2011), "Action no. 1)

⁵ The RSA: Policy Options, Page 7

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risk of SCL being unable to pay its bonds or meet its financial obligations. Thus, the RSA, at a minimum, does not need to be the considerable size that it is.

- **Restructuring Residential Rates.** SCL has discussed for many years the problems that are created by having customer bills primarily based on energy. In SCL Finance Director Paula Laschober's report to the Review Panel on October 17, 2017, she recommended restructuring rates for residential customers to increase transparency and to collect more revenue.⁶

She recommended that such a restructuring would help "rebalance the ratio of fixed and variable rate components" by making them more transparent through showing energy, delivery, base service, and public benefits charge, the last of which is currently not a separate line item.⁷ No rate structuring changes have been made since that report was made.

- **Decoupling.** MIC is strongly opposed to the use of decoupling as a tool to "true up revenue when collections exceed or fall short of budget," as described under Section 2 of the "Rate Design Framework."

Industrial customers would be uniquely and negatively affected by decoupling, and they would be penalized for their own significant conservation efforts.

Decoupling shifts risk to customers, guaranteeing higher electric rates when demand decreases due to weather or market forces. The accounting method also does not affect incentives for conservation because Washington utilities are already required by law to meet their conservation goals. Utilities also recover the capital costs of demand-side management acquisitions from ratepayers.

Finally, decoupling may lead to poor management by separating margins from performance, thereby removing incentives to control costs and offer strong customer service.

Conclusion

MIC appreciates this opportunity to address the significant challenges facing SCL and its customers regarding ratemaking and rate design. We look forward to further discussion on the issues.

⁶ "Path to Revenue Sustainability", Review Panel, 10/24/17, Page 10

⁷ Path to Revenue Sustainability", Review Panel, 10/24/17, Page 6



MANUFACTURING INDUSTRIAL COUNCIL

September 2018

Manufacturing Growth

Those words don't usually appear next to each other, but manufacturing continues to grow in the State of Washington. Business revenues are rising, employers are looking for new workers, and the sector continues to spin off secondary benefits that support society as a whole.

It's easy to see why some can't see the growth trends. When manufacturing facilities close, it can devastate local communities. Through globalization and mechanization, the US has also lost many of the less skilled positions that used to provide decent pay for people with limited educations.

But, the data shows manufacturing still helps drive the economy, and long-term career prospects are bright for young people (or older ones) who learn basic skills in math, science, safety, tool and equipment use. Here are some key positive indicators.

36%

That was the growth rate for business revenues for manufacturing firms in Washington from 2007 through 2017. That compared with 33% revenue growth for all private businesses. The numbers come from the Washington State Department of Revenue (DOR) from the gross business revenues that every private company is required by law to report for purposes of calculating their state tax liabilities.

\$178 Billion

The growth rate for manufacturing takes on added significance because the sector is so large. DOR records show manufacturing firms in Washington reported combined income in 2017 of \$178 billion. To put that sum into context, it was larger than the combined totals for these other, more visible business sectors:

- all car dealers (new and used) – (sales of \$28.7 billion);
- all department stores, food stores and gas stations - \$30.4B;
- all TV and radio stations - \$2.3B;
- all banks and credit unions - \$20.6B;
- all insurance agencies, real estate, law and engineering firms - \$23.6B;
- all advertising and PR agencies - \$1.4B;
- all hospitals, doctor offices and dental clinics - \$33.8B;
- all hotels, restaurants and bars - \$20.1B, and
- all software publishers, consultants, performance arts, and sports teams - \$16.2B.

Those sales total \$177 billion - one billion less than manufacturing.

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