

## City Light Rate Design Situation Assessment

### **Part 1: DRAFT Overall Situation Assessment:**

*Sets the stage for rate design policy analysis.*

#### **Demand for Electricity**

1. Historically customers' demand for electricity generally increased year to year at a slow rate. Around 2012, City Light saw this shift to downward-trending, despite Seattle's population boom and economic growth. The Utility forecasts that this decline is a long-term trend that will put upward pressure on electricity rates since most of the Utility's costs are fixed.
2. Revenues from retail sales are becoming more unpredictable; revenue swings are currently managed by adjusting the size of capital borrowings.
3. Demand for City Light power peaks in the winter, unlike most utilities that see summer peaks due to air conditioning demand. Daily and seasonal peaks in electricity demand are relatively modest due to mild climate and low AC penetration.

#### **Supply of Electricity**

4. City Light's power supply is 93% hydropower (3% wind, 3% other). Skagit, Boundary and BPA hydro resources provide operational flexibility, making it relatively easy for City Light to manage short-term fluctuations in demand.
5. There is strong community support and support from elected officials to continue the strong tradition of City leadership in energy efficiency. Before 2007, when City Light rates were lower than the wholesale cost of electricity, conservation helped generate additional revenue and promoted environmental goals. With low wholesale market prices, while there remains strong community support for the environmental benefits of conservation, the financial benefit of conservation to the Utility is less than it was before.
6. Customer generation (i.e. solar) currently represents less than 1% of the Utility's energy supply. Net metering policies provide a significant financial incentive for customer generators. It is unclear if or when this will start to increase dramatically as a part of the Utility's energy supply.

## **Rate Mechanisms**

7. City Light's current rate structure has been in place without major change for nearly 4 decades. Energy consumption patterns may have shifted in ways that warrant re-examination of these structures.
8. Rate structures for residents include ascending block rates and a customer charge. The fixed customer charge is currently set at 50% of estimated marginal cost of each customer account, about \$5 per month. The full cost of basic grid connection is about \$30.
9. City Light created a Rate Stabilization Account in 2010, to address variability of wholesale rate revenues. This mechanism has allowed the Utility to weather low revenues from wholesale power prices over the last seven years. The target balance in this account is \$100M. City policy does not allow monies in this fund to be used to address volatility in retail sales, only wholesale power sales.
10. Commercial and industrial consumers are divided into Small, Medium, Large and High Demand general service rate classes. (Over 90% of customers are "Small".) Rate classes have progressively more complex rate structures for higher demand customers. All classes but Small have demand charges. Only Large and High Demand have time-of-use rates.
11. With deployment of AMI, there may be opportunities to update/deploy new rate tools, (time of use rates in particular), standardize rate classes, and gain additional understanding of electric load shapes and patterns.

## **Other**

12. Retail rates have been increasing at over the rate of inflation for many years, driven by large capital investments and ongoing labor/operating costs that rise in excess of inflation each year. This seems likely to continue and, with load stagnant or declining, rate increases will be even higher, which is something that draws increasing attention from the public.
13. The City has a strong tradition of leadership on environmental issues. These drive some of City Light's costs, although environmental interests may not be a rate-design issue per se (as opposed to energy efficiency interests).

**Part 2: DRAFT Assessment of the Current Rate Structure –**

Framework to help Panel start gathering/organizing thoughts about rate design policy and practice. Discussion questions for review panel:

- Are these the right rate principles?
- Add/edit anything to “current policies and structures” assessment?
- Share with stakeholders?

	Rate Design Principle	Analysis of Current Rate Policies and Structures
1	<b>Simple, understandable, feasible</b>	<p>Not clear how understandable rates are for customers                      Customers have little choice in their purchase of energy</p> <p><i>City Light should provide customers clear and understandable information about the level and structure of rates and any proposed changes to them. (1.D)*</i></p>
2	<b>Collect all revenue requirement</b>	<p>No mechanism to true up revenue when collections exceed or fall short of budget.</p> <p><i>Electric rates should be sufficient to meet City Light's annual revenue requirement. (2)</i></p>
3	<b>Provide stable revenue for utility</b>	<p>Revenue volatility increasing but still modest (___% of annual revenue requirement)</p>
4	<b>Provide stable, predictable bills for customers</b>	<p>Residential customers seem surprised by bills (e.g., winter)</p> <p><i>Gradualism—level of rate, and structure of rates, if changed should change in an orderly way over time. (1.C)</i></p>
5	<b>Fairly apportion cost of service</b>	<p>Situations where rates may not reflect cost of service:</p> <ul style="list-style-type: none"> <li>• Solar net metering</li> <li>• Low (fixed) customer charges</li> <li>• First customer block size hasn't been evaluated in decades—may or may not be sized appropriately</li> </ul>

	Rate Design Principle	Analysis of Current Rate Policies and Structures
		<p><i>Rates should reflect a fair apportionment of the different costs of providing service among groups of customers (3.A)</i></p> <p><i>Rate credits when customers provide their own transformer or metering infrastructure (4.D)</i></p>
6	<b>Promote economic efficiency</b>	<p>Residential end block price signal not aligned with economics Legacy billing practices and rate classes could be updated once advanced meters in place</p> <p><i>Structure rates to encourage efficient use of resources needed to provide electrical service (1.B)</i></p> <p><i>Rates based on marginal cost of service (3.A)</i></p> <p><i>Deploy time of use rates when reasonably feasible. (4.E)</i></p> <p><i>Charge higher rates for higher consumption (ascending block rates)(4.A)</i></p> <p><i>Demand charges where included should not decline as power sales to a customer increase (4.B)</i></p>
<p>Other rate policies (mostly cost of service) mentioned in 2012 rate policy Resolution 31351:</p> <p><i>Conservation costs are a power resource and thus chargeable to all customers (3.C)</i></p> <p><i>Low income rate assistance costs are allocated to all customers (3.D)</i></p> <p><i>Residential first block sized to meet essential needs and priced at or below average cost (4.C)</i></p> <p><i>Low Income rates shall be at least 50% lower than regular residential rates (4.F)</i></p>		

*\*Blue italics denote existing policies documented in Resolution 31351, parenthetical indicates resolution section.*

### **Part 3: Information Requests**

*For discussion with Panel – what are their interests? How to structure stakeholder meetings?*

A. Information the Panel would like to learn from Stakeholders:

- What outcomes do they want rate design to promote?
- What opportunities for improvement do they see in the current rate structures?
- How would they prioritize the 6 key policy goals, and why?
- What alternative rate structure options would be of interest? (TOU, premium green, etc.)
- Other?