Cost of Service Analysis (Proposed) Results

July 11, 2012

2013 Rate Increase

	Total	Residential	Small	Medium	Large	High Demand	Lights*
All Areas	4.4%	5.9%	3.4%	4.0%	4.9%	-3.5%	26.7%
City	3.7%	6.6%	3.9%	1.7%	-0.2%	-4.3%	26.7%
Network	11.4%			10.8%	12.0%		
Tukwila+Shoreline	1.6%	4.4%	0.4%	1.3%	-1.4%	-0.9%	
Other Suburbs	2.7%	3.6%	0.2%	0.5%	-0.1%		

2014 Rate Increase

	Total	Residential	Small	Medium	Large	High Demand	Lights*
All Areas	5.6%	6.5%	5.4%	5.0%	4.3%	6.0%	4.5%
City	5.6%	6.5%	5.4%	4.9%	3.2%	6.0%	4.5%
Network	5.5%			5.4%	5.6%		
Tukwila+Shoreline	5.5%	6.4%	5.4%	4.9%	3.2%	5.9%	
Other Suburbs	6.1%	6.5%	5.5%	5.0%	3.3%		

Higher Distribution Costs, Lower Energy Costs, Lower Wholesale Credit

$M	2007-2008	2013	Change
Energy	$477.1	$471.9	($5.2)
Distribution	$163.3	$255.4	$92.1
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.

Principal explanations for diverse class rate impacts of 2013 cost allocation results

3 "macro" factors:

Lower energy costs:
Benefits large energy users (High Demand and Large General Service)

Higher distribution costs (especially wires):
Higher costs for network customers (~ 2 x non-network wires marginal costs)

Lower net wholesale revenue credit for all customer classes

Factors specific to certain rate classes:

City Residential:

- Higher network costs (higher distribution cost + higher load) allocated to downtown residential customers are combined with non-network residential costs
- Less contract payment credit from franchise cities (see below) to offset costs
- Less net wholesale revenue credit to offset costs
- Summary: Increased operating cost combined with lower credits to offset costs = higher average rate

Most Suburban rate changes lower than City rate changes:

- Lower franchise contract payments on energy portion of bill (because energy costs are lower)
- Base rates before rate increase had a higher proportion of energy costs
- Actual suburban rates remain higher than City rates for all classes
- Tukwila and Shoreline rates highest of all—contract payment on both energy and distribution

Network Medium General Service

- Higher distribution cost, especially wires
- Load growth (more load in this class assigns more distribution cost to this class)

Network Large General Service

- Higher distribution cost, especially wires
- Decrease in load (which allocated less distribution cost to this class) partially offset the effect of higher distribution cost but did not completely compensate for it (so cost per unit of energy still increased)

Streetlights

- Higher directly assigned costs (retrofits, new LEDs, faster repair/replacement, stray voltage testing, and arterial patrols to find lights out)
- Load decrease due to increasing installation of LEDs increases cost per unit of energy, though LEDs themselves have low O&M cost for 2013-14
- Costs per unit include O&M, capital and energy