



City Light Review Panel Meeting Meeting Minutes

Date of Meeting: March 19, 2014

MEETING ATTENDANCE					
Panel Members:					
Name		Name		Name	
David Allen	✓	Stan Price	✓	Eugene Wasserman	✓
Tom Lienesch	✓	Julie Ryan	✓	Eric Thomas	✓
Chris Roe	✓	Sue Selman	x		
Staff and Others:					
Jorge Carrasco	✓	Councilmember Sawant	x	Paula Laschober	✓
Sephir Hamilton	✓	Joshua Koritz	✓	Kirsty Grainger	✓
Maura Brueger	✓	Phil West	x	Nina Sidneva	✓
Kim Kinney	✓	Jim Baggs	x	Bakhadur Khabibov	✓
Jeff Bishop	✓	DaVonna Johnson	x	Marianne Bichsel	✓
Karen Reed	✓	Mike Jones	✓	Rollin Fatland	✓
Tony Kilduff	✓	Saroja Reddy	✓	Molly Connelly	✓
		Greg Shiring	✓	Sara Patton	✓
		Lee Colleton	✓	Jan Bultmann	✓

Call To Order

The meeting was called to order at 9:10 a.m.

Karen Reed welcomed everyone to the meeting and began with a review and approval of the agenda. *The agenda was approved.*

Approval of Minutes

The meeting participants reviewed the draft meeting minutes of February 24, 2014. Eugene Wasserman asked if staff could add more language regarding discussion on the substation shooting incident and Jorge Carrasco offered some additional suggested text. Karen will work with Kim to incorporate the additional comments in the final version of the minutes. *The minutes were approved as amended.*

Presentations / Information

Public comment:

Molly Connelly introduced herself during public comment saying that she was an advocate for privacy rights. She wanted to express to the Panel that she had privacy concerns about Automated Metering Infrastructure (AMI) or Smart Meters. Current laws don't provide adequate protection for privacy rights. The current opt-out law is not sufficient and she asked the Review



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Panel to consider adopting an “opt-in” policy. She handed out a paper detailing the privacy concerns and would like to see the Utility do something to protect privacy rights in relation to the implementation of AMI.

Sara Patton from Northwest Energy Coalition (NWEC) provided comment next. She noted with sadness the recent death of former City Councilmember Jim Compton and recalled he was a great public servant and great supporter of public power. She appreciates all of the hard work put into the rate design project. In her view, the outreach indicated customers are satisfied with the current rate structures. As mentioned at a previous meeting, the NWEC did not support the 33% increase in the base service charge. They were concerned about what this does to promoting clean energy and the NWEC’s goal is to continue to maintain incentives for conservation. In closing, she said the NWEC was disappointed that decoupling was not part of this proposal. She asked the Review Panel to separate the long term goals from the short term.

Jan Bultmann from the Seattle Privacy Coalition spoke next. She said that she was here to offer her expertise to the utility and that the Coalition is staffed by volunteers. She shares Molly’s concerns about privacy rights and offered to work with the Utility and Panel to provide an audit of security practices around AMI. They are working with the ACLU too. She feels the ability to collect data is moving faster than the deliberative process.

Lee Colleton, also a member of the Seattle Privacy Coalition, added onto Jan Bultmann’s comments. AMI can be hacked to find out when someone is at home and what they’re doing. He prefers technology that is completely internal to the home, with an opt-in to use it. He would not want the AMI use data going to SCL. There is a tension between privacy and data sharing.

Chair’s Report:

Eugene Wasserman reported that he sat at the table with Jorge Carrasco when they met with City Council on Monday, March 17th. He felt that it was a very good session where Council seemed more engaged. He thought that the Councilmembers seemed to understand and be better informed about the utility and the strategic plan. Councilmembers had some questions about the use of an expanded line of credit by the Utility.

Eugene noted that he and Jorge received a thank you note from Councilmember Sawant for their presentation and hard work on the Strategic Plan. He said that he thinks the discussions will be more interesting going forward.

Stan Price provided a reminder on a few upcoming items: (i) establishing a work plan for this year and (ii) electing Chairs for the Review Panel. There are 4 positions with uncertainty (Debbie Tarry has resigned and 3 members have expiring terms next month) and the question on the table is how we want to proceed. Does the Panel wish to wait or move ahead on the process? Karen Reed said the Panel can decide for themselves whether to conduct Co-Chair elections next month or wait until the expiring and vacant Panel positions are filled. Josh Koritz said that he will check into the appointment issue with Councilmember Sawant. Stan encouraged his colleagues to think about their leadership and if any others would want to volunteer their time as a Co-Chair of the Panel.



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There was no correspondence received to the general mailbox.

Presentation: Rate Policy Proposal

Jorge reminded everyone that we've gone through a lengthy discussion on rate design. We've had feedback and reactions, and we've done public outreach. City Light is now taking the benefit of all of the feedback and identifying a proposal on how the Utility thinks it is best to move forward.

Jorge said that the intent today was to hear about what the Utility proposes for 2015 and 2016 to put forth as the proposal and discuss the structure of it with the Panel. Today's presentation would also include a view of the rate design end game and what the Utility believes it may look like. This is meant to provide context to the Panel of the long-term strategy that the Utility envisions for the rate design process.

Jeff Bishop started the rate design proposal presentation explaining the four areas he'll touch on:

- understand the rate design feedback received during public outreach
- understand the rate design proposal for 2015-2016
- understand the Utility's long-term vision for rate design (the end game as Jorge mentioned)
- arrive at a Review Panel recommendation for 2015-2016

Jeff reported on some of the key feedback from public outreach – rate predictability, maintaining incentives for conservation, concerns on the low income discount, as well as various views including some support for increasing fixed cost recovery.

Jeff reviewed the rate design (2015-2016) proposal highlights.

1. Increase fixed cost recovery while maintaining a price signal for energy that continues to incent conservation.
 - Implement base service charge
 - Increase recovery of distribution costs via demand charge, but at a more gradual pace than initial concept
2. Maintain Utility Discount Program (UDP) subsidy at 60%.
3. Implement Time of Use rates as the technology becomes available.

The Utility wants to maintain the UDP subsidy at 60%. A question was raised on how this would affect the pace of expanding the program. The Utility is in the process of examining this and the underlying assumption is that we'll double the participation in 6 years. Other customers will be bearing the cost of change in the UDP program.

Residential and Low Income Rate Design

Jeff explained that the proposal retains the 2 block structure and removes seasonal rates. The table on Slide 9 shows where the base service charge (BSC) has been increased and the first



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block power price reduced as a buffer for the BSC increase. He cautioned Panel members to focus on the absolute dollars of the resulting bills rather than the percentage shifts, and to keep in mind that the low income group does not necessarily use low amounts of energy.

Small General Service Rate Design

Currently there is a minimum charge based on recovering 100% of the marginal customer cost (those costs that do not vary with consumption, such as billing and metering). There is no demand charge. Bills are almost entirely based on variable consumption charges. The Utility suggests establishing a BSC set at 100% of customer marginal cost plus 25% of distribution marginal cost, and reducing the variable (energy) charge. In response to a question, Jeff confirmed that small general service customers who use a lot of electricity will see reduced bills and customers who use small amounts of electricity will see a bill increase due to the implementation of a BSC that includes both customer costs and distribution infrastructure costs. The BSC would only cover a portion of the fixed costs to serve customers.

Medium and Large General Service Rate Design

The Utility is proposing to institute a BSC set at 100% of marginal customer cost. This would replace the current minimum charge, which is set on the same basis. A demand charge would be set to cover 38% of the marginal cost of distribution, and the energy charge would be reduced.

Jeff noted that the current proposal would increase the Utility's fixed cost recovery from 7% to 16%. This was a reduction of 5% from the original concept which provided for 21% fixed cost recovery. While this proposal is a good improvement, it is well below the actual cost structure which is approximately 46% fixed and 54% variable.

Long-Term Rate Design Strategy

Jeff reviewed the Utility's overall assumed long-term rate design goals on Slide 14. These included a base service charge equal to 100% of the marginal customer costs, demand charges or increased base service charges through which all customers would be billed for 50% of the marginal distribution costs, and energy charges covering the remaining costs and structured as time-of-use (peak and off-peak) rates. The ensuing slides showed where the Utility will be likely heading with the long-term rate design strategy for the different classes. Rate structure changes would be implemented gradually over varying numbers of years, depending on each customer class' starting point.

Jorge commented that with the entire industry moving aggressively towards using smart grid technology SCL has to start moving towards fixed cost recovery via some kind of infrastructure charges (even though the change would be implementation with a moderate approach). He added that we must look at this for the future to avoid getting the Utility into a position where it might not be able to recover its costs, or might have to make a sudden significant rate design change in order to do so; that is, it would be better to start now and start slowly so the needed changes can be implemented gradually.



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Jorge said we are also contemplating whether the utility should consider ways to add load. Our retail revenues are softening, weakening. We are dealing with these ramifications – we need to start looking at the whole picture and the end game.

Discussion ensued and the following comments were given:

- There are a lot of different mechanisms to consider. We're looking at tweaking the current rate design but there needs to be a lot more conversation around the longer term strategy. Consider new tariffs, new models? We need to get the fixed costs where they need to be. How should the Utility develop a framework to implement this over a period of time?
- There is a need to give a perspective of the future. Need to set the stage for the challenges the Utility will be facing in the long term. We don't have the luxury of waiting forever. We have to deal with the fact that technology changes are happening very quickly and we cannot afford to wait very long before strategizing on those coming changes. The rate path needs to address fixed cost recovery and provide customers with more reliability/predictability. It's coming much faster than what utilities expected.
- It is a foundational principal for the Utility to meet their revenue requirements. It's a legitimate question about the mechanisms you balance with to achieve that meeting of revenue requirements. The Utility needs to balance all of those issues going forward.
- There needs to be a balance of the Utility being healthy plus there's another role that other companies play in this – attracting new industries, developing the growth. Think about how the Utility can support economic development (in the long term proposal).
- Some investor owned utilities are examining other paths – i.e., getting into the market of selling their renewables.
- What is in the infrastructure charge versus the BSC? Paula Laschober responded that when we use the term “infrastructure charge” we are talking about a way to include distribution marginal costs in Small General Service rate schedules. The Utility's original concept was to include 50% of the marginal distribution cost for the class in such a charge, but the proposal has reduced that to 25%. Distribution costs include things like substations, wires and transformers. If a class isn't demand metered and consequently is not billed for peak demand (like Small General Service), you have to put those distribution costs somewhere. You could include them in the energy charge (as we do today), or you can add them to the base service charge. Those are the only options. The base service charge would cover only marginal customer costs if the class were demand metered, but in the case of Small General Service, we propose to add an “infrastructure charge” covering a portion of the marginal distribution cost, and thereby creating a larger base service charge for this class. At some date in the future, e.g, when AMI is operational, we would have the option of billing this class for peak demand (like we do for larger customers) and, thus, would not need an additional “infrastructure charge.”



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- As demand decreases, the percentage of fixed/variable costs will change – can the Utility track this?
- Karen Reed offered that the Review Panel should bifurcate the discussion about rate design into two parts: (1) The 2015-2016 proposal, and then (2) the longer term proposal. Today's primary goal is to get the Review Panel's comments about the 2015-16 proposal.

PANEL DISCUSSION: See Attachment A.

Action Items

The Review Panel asked if Jeff Bishop could provide system rate information of the neighboring utilities so they could see the balance regionally of what SnoPUD and Tacoma are doing.

Karen will draft a letter to come from the Review Panel.

Adjournment

There being no further business to discuss, the meeting was adjourned at 11:55 a.m.



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Attachment A-1: Write-up of Comments from March 19, 2014 Discussion

Short-Term (2105-16 Proposal)

Generally:

- The Utility has made the case that the industry is changing, and the short term proposal addresses these issues—evolving infrastructure needs, equitable cost distribution, financial stability, addressing the five policy goals the Panel has identified.
- The Utility needs to recover its fixed costs as demand falls over time.
- Energy is mispriced in the current rate structure.
- Customers should pay the real cost of service.
- Should continue to encourage efficient use of power – go to 50% recovery of distribution costs but not all the way.
- There has been a robust public process. It is an important issue and the Utility ran a good process.
- Should we do separate letters on rate design and the strategic plan? (SCL prefers a single letter since rate design is a component of the Strategic Plan Update legislative package)
- No big “all stops” heard in the public process.
- Appreciate the shift in the Utility’s position in this final proposal.
- The commodity cost is being impacted in this proposal. There is a 10-12% reduction in commodity cost, which impacts the business case on efficiency investments, meaning a longer payback on recent investments.
- If you compare the Utility’s proposal to what is in place in neighboring utilities, we are in the range (double check this).
- Real cost structures should be visible to consumers.

Residential Rates:

- Would prefer to hold off implementing these changes until Time of Use Rates are in place so that customers can have better ability to manage their power use.
- Rates will continue to go up, so disincentives to conserve or invest are reduced by that.

Low Income Rate Discount:

- Panel considered reducing the subsidy rate but the status quo is acceptable.
- Based on our information, this is a very generous program.
- It should be periodically reviewed to observe the cost impacts.

General Service Customers:

- Merge discussion of various customer classes.
- Imposing a Base Service Charge makes sense, is consistent with typical utility practice.
- The increase in the demand charge is material and could impact manufacturing in the City.



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- The increase in demand charges could encourage some new types of conservation investments to reduce peak use and increase load factor. This would be a win-win for customers and the Utility.
- The proposal is responsive to the Panel's concerns.
- In looking at this short term proposal, also need to consider other impacts on ratepayers: increasing BPA costs, Net Wholesale Revenue.

Long-Term Proposal (2017-22):

- In the long term, residential electricity use will continue to decline and distributed generation will increase. Perhaps we need a new tariff to address associated costs?
- Need more conversation about the long-term proposal. Rate policy is only one component of policies important for the long-term.
- Long-term look is helpful for decision-makers at the City, and for customers. It is a framework.
- The utility industry is changing quickly. It may be that we need to consider changing rate policy more frequently than every two years.
- The revenue requirement must be met, but the long-term path may look a number of different ways.
- A key question is how much risk the Utility should take on.
- These discussions should be included in the Strategic Plan going forward.
- The Utility should consider incorporating economic development incentives in long-term rates.
- As demand drops, the ratio of fixed to variable costs will increase. Should track this.
- The long-term proposal is indicative of a path we *could* take, so our comments to the Council and Mayor about this should be qualitative.
- We should monitor the rate and direction of demand charges.
- Many variables could affect the long-term rate design path.
- There is not Panel consensus on the specific numbers presented in the Utility's proposal.
- The trajectory is generally in the right direction to meet the challenges identified. The specifications around it may change.
- The Utility should leverage this for future discussions with the Council on what the Utility thinks is an optimal outcome on rate design.
- In the long-term, customers will have more tools to respond to rate changes.
- The long-term proposal anticipates a set of future problems and seeks an equitable, financially stable response.
- We need to be careful about advocating for a proposal based on equity arguments. What is "fair" is different for different people.
- The Panel should discuss long-term rate policies in the context of the strategic plan, along with other major strategic issues.
- The challenges of the next decade are not about finding new resources—rather they are about increasing distributed generation and security issues.
- We are not in alignment on the trajectory outlined in the long-term proposal.