



**City Light Review Panel Meeting
Meeting Minutes**

Date of Meeting: April 25, 2012

MEETING ATTENDANCE					
Panel Members:					
Name		Name		Name	
David Allen	✓	Stan Price	✓	Debbie Tarry	x
Tom Lienesch	✓	Julie Ryan	✓	Eugene Wasserman	✓
Matt Lyons	✓	Sue Selman	✓		
Staff and Others:					
Brian Brumfield	✓	Tony Kilduff	✓	Paula Laschober	✓
Maura Brueger	✓	Calvin Chow	✓	Rollin Fatland	✓
Kim Kinney	✓	Councilmember O'Brien	✓	Sierra Hansen	✓
Suzanne Hartman	✓	Sahar Fathi	✓		
Jorge Carrasco	✓	Phil West	✓		
Karen Reed	✓	Jim Baggs	✓		
Steve Kern	x	DaVonna Johnson	x		

Call To Order

The meeting was called to order at 2:00 p.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 March 29, 2012. The minutes were approved as submitted.

Presentations / Information

There was no public comment offered for today's meeting.

Karen Reed advised that there were strategic plan comment letters received from the Sierra Club, Greg Hill, the Bullitt Foundation, Preservation Green Lab, and Manufacturing Industrial Council (MIC). She provided a brief recap of each letter received. The Panel Members agreed that the senders would be sent a response letter from the Co-Chairs acknowledging receipt and advising them that the Panel will consider their input. Karen will prepare the draft letters for the Co-Chairs to send as a response. Sahar Fathi requested that Councilmember O'Brien be copied on the response letters.



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Tony Kilduff commented that it was important to clarify to MIC that Council did not raise the debt service ratio as their letter stated. It was noted there were a few other inaccuracies too.

Paula Laschober, City Light's Finance Director, addressed the group to provide information on how City Light rates are set. To take a step back, she first provided the meeting participants with an overview of the process. She explained that the rate making process has three phases:

- (1) Revenue Requirement – The analysis of the revenues required to meet City Light operating and maintenance expenses and to satisfy the Council's financial policies—minus revenues from other sources, such as net wholesale revenue.
- (2) Cost Allocation - The analysis of distributing the revenue required by City Light to customer classes so that the revenues recovered from each customer class are based on the cost to serve that class. In other words, a higher cost-to-serve customer group would pay more per kilowatt-hour than a lower cost-to-serve customer group would. Cost allocation allocates the revenue requirements among functional cost components or elements.
- (3) Rate Design - The process of shaping rates, charges and credits for each customer class so that the customers in each class not only contribute their fair portion of City Light's revenue requirements but also receive appropriate price signals consistent with City policies, e.g., higher prices for higher consumption and during high-cost periods to encourage conservation.

Paula outlined some of the utility's rate making objectives:

- (i) rates should be sufficient to meet the utility's revenue requirements, while charging the lowest possible cost to the ratepayer over the long run;
- (ii) rates should reflect a fair apportionment of the different costs of providing service among groups of customers so that each class contributes their fair portion of the revenue requirement;
- (iii) rates should provide incentives for cost effective conservation of electricity and the efficient use of electric power resources.

Paula informed the group that City Light has about thirty customer classes. She explained that in rate design, one of the components you have to consider is how much energy you use during peak and non-peak hours. They try to ascertain the charge for each customer class giving consideration to various factors like time of day use and amount of use.

Paula referred to a few of her handouts – one which showed specific issues for potential consideration by the Review Panel in viewing the rate policy work. The other handout illustrated some rate design and cost allocation samples for the meeting participants. She emphasized that these were just general numbers to provide an illustration for discussion purposes. She reviewed some of the block structures and provided an overview of some rate design samples. She mentioned that one might adjust the different blocks to encourage more energy conservation. She indicated that the goal was to give the price signal that you want to give, but at the same time you do not want to overcharge the customer class. Paula reviewed some of the sample rate schedules given and noted that any change to the structure of rate schedules changes who pays



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higher bills and who pays lower bills within a rate class. Paula explained that if you raise one element, you have to lower another element because you do not want to overshoot the total revenue requirement for the class.

Matt Lyons asked how the determination is made to where the residential blocks are set? Paula responded that the block structure was something that was established back in the 80's. It's the structure that Council approved before and it has been kept. It's not sacrosanct but it is the model that they still use. She said that there are different models in the area.

Whenever you change the structure of any rates, it will affect different customer classes differently. Depending on charges, you may be able to motivate customers to use energy more wisely and not always at the peak.

Paula moved on to marginal cost allocation next. She said that energy cost shares determine energy cost requirements. Eugene Wasserman asked Paula to explain what the "marginal cost of energy" is and how that number is derived. Paula provided a theoretical example for this – say, if it costs ten cents per kWh to buy energy on the wholesale market, then City Light adds an amount for environmental externalities, e.g., two cents, the total marginal cost per kWh will be twelve cents. It's what we forecast we will pay on the market at peak or off peak hours, plus the value of environmental externalities.

Paula encouraged the meeting participants to refer to page 20 of the Guide to Ratemaking (*which was given to the Panel at the 10/19/11 meeting*) as this guide would provide more information on the above. Superintendent Carrasco commented that the utility can provide more detail later on for people to understand the concepts in the Guide to Ratemaking.

The meeting participants discussed how things have changed over time and that the rate design issue may be something that may need more examination regarding rates and different block structures. The current system seems to be a bit dated and the issues today are much different than those back when the policies were established. A member of the panel suggested that in the past, the driver was the industrial sector but now with new data farms & centers as well as other advanced technology, it is the commercial sector.

Councilmember O'Brien said that he felt rate design was a zero sum gain. He said he felt that unfortunately we were going to have winners and losers. We won't get to make many changes in the next few months and he wants to be cautious in our approach to this. He said that he wants to make sure we do something that can truly work.

Superintendent Carrasco encouraged the Panel to let him know should there be other fundamental issues that they wish to explore. Clearly, marginal cost is a subject that the Panel needs to hear more information on. He said that the utility can come back with more cost allocation detail to acquaint the Panel with how the utility does it. At a future meeting he said that focus can be placed on the chapter dealing with cost allocation.



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The Panel did have questions and asked for more information and examples for:

- what kinds of companies are described in the different customer classes;
- how are the determinations made where the blocks are;
- how does the utility identify between a large commercial customer and other medium-large sized businesses (what characters of their usage would profile them into a certain class?);
- how the cost allocation numbers are derived and assigned to different classes.

Karen Reed summarized the dialogue saying that the Panel seems to be expressing a wish to do a comprehensive review of rate design. The residential blocks were established back in the 80's and it's probably time to explore some possible rate design changes. One potential concern is that there's only a short time frame for the Panel to give input on rate design for the upcoming rates (2013-2014). Stan Price said he felt it important for the Panel to carefully figure out a proper work plan and fit it into the proper time sequence. In other words, the Panel should agree first on a work plan that they would like to proceed with keeping an eye to what is doable and the Panel's bandwidth to deal with this complex subject.

Tony Kilduff commented that the intent of the Council was that the Panel would be empowered (but not obligated) to tackle this issue. He said that the Panel can choose to say that they do not wish to weigh in right now and can choose to take more time to get their arms around all the components affecting this issue before delving into it full force. He suggested that the Panel perhaps put some comment in their letter to the Mayor noting that they do not wish to opine because they feel they need more time to explore this item.

Karen Reed noted that the group was not leaning towards jumping into the intricacies on rate design right now. It appeared that the Panel would rather work with the utility to design a longer term work plan on this topic. She said that the Panel can choose if they wish to weigh in on the upcoming two-year rates, make any recommendations on them, or to wait until the next rate period before opening.

Suzanne Hartman provided the meeting participants with a public outreach update and schedule for transmittal of the Strategic Plan. She advised that the two series of public outreach conducted in support of the Strategic Plan had very different audiences and very different questions. She provided a summary of the second set of outreach meetings, those conducted in 2012. She noted that the utility also conducted outreach meetings to non-English speaking communities in this round, She mentioned that their advertising with Comcast was successful in that it drove people to the online area so it was a good hit. They also did a lot of social media around the plan. There appeared to be an equal amount of comments saying that the rates were good and also that the rates were too high. She gave kudos to Councilmember O'Brien for fielding a lot of those questions at the outreach meetings.

A question was raised on if they could give a sense of where the utility was in the transmittal of Strategic Plan? The Mayor has met with both Co-Chairs and he has a good sense of where the Panel is headed. The Mayor's Office and Council are hearing a lot of comments from the public and business people regarding thoughts on the plan. They hope to transmit the plan to the Mayor



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in the first week of May. Eugene said that during the meeting he and Stan had with the Mayor, they discussed the plan and Eugene's perception is that the Mayor is prepared to take ownership of the plan and recommend the preferred path.

Karen addressed the Review Panel's proposed comment letter to the Mayor next. She advised the Panel to provide her with their final feedback within 48 hours and she would finalize it for sending to the Mayor (and cc: Council).

Karen advised the Panel that the utility would send them the final draft of the strategic plan when it was ready. Maura Brueger can provide a summary of changes for the Panel so they can see any of the key changes that were made since the draft in February.

The last item on the agenda was the Review Panel Chair Elections. Karen asked for any nominations from the floor. There were none, so she asked the current Co-Chairs, Stan Price and Eugene Wasserman, if they were willing to serve for another year. There was agreement that Stan Price and Eugene Wasserman be nominated for another year. All were in favor and the motion carried unanimously.

Karen summarized what they could come back with for next month's panel meeting:

- more detail around cost allocation
- work with the Panel and the utility to develop means through which the Panel and the City can track the utility's progress in implementing the strategic plan (progress and accountability items)

Action Items

Karen Reed will draft the correspondence response letters and have them sent out via the Co-Chairs.

The utility will bring back more information to the Panel Members regarding rate design and cost allocation.

The new strategic plan will be sent to the panel members when it is available.

Adjournment

There being no further business, the meeting was adjourned at 4:10 p.m.