“ATTACHMENT A”

City Light Review Panel Meeting
Meeting Minutes

Date of Meeting: July 29, 2013

MEETING ATTENDANCE

Panel Members:

Name		Name		Name	
David Allen	✓	Stan Price	✓	Debbie Tarry	x
Tom Lienesch	✓	Julie Ryan	✓	Eugene Wasserman	✓
Chris Roe	✓	Sue Selman	✓	Eric Thomas	✓

Staff and Others:

Jorge Carrasco	✓	Rashad Morris	x	Paula Laschober	✓
Sephir Hamilton	✓	Councilmember O’Brien	✓	Kirsty Grainger	✓
Maura Brueger	✓	Phil West	✓		
Kim Kinney	✓	Jim Baggs	x		
Jeff Bishop	✓	DaVonna Johnson	x		
Karen Reed	✓	Saroja Reddy	x		
Tony Kilduff	✓	Anthony Colello	✓		
John Gustafson	x				

Call To Order

The meeting was called to order at 2:05 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 June 28, 2013. *The minutes were approved as submitted.*

Presentations / Information

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

There was no new correspondence received in to the general mailbox.

Chairs Report:

Stan Price offered congratulations to the utility on the Alliance to Save Energy 2030 Forum held at City Hall on July 23rd. The event went very well and had very good attendance including the Governor, the Mayor, and some Councilmembers.

Update on Ratepayer Engagement Resolution.

Maura Brueger updated the group on the status of the City Council ratepayer engagement resolution. The resolution has been introduced and is scheduled to be heard at the September 10th Energy & Environment Committee (EEC) Meeting.

The Review Panel Co-Chairs were scheduled to provide a Quarterly Review Panel Update at the August 13th EEC Meeting but after discussion, the group thought that it may be better to have the Co-Chairs give their update at the same meeting that the ratepayer engagement resolution will be taken up. Staff will check on timing for this and let the Co-Chairs know.

Rate Design Policy: Demand Charges for Medium, Large and High Demand Customers.

Jeff Bishop led a presentation on demand charges. At today's discussion SCL is presenting a proposal relative to commercial customer rates, to increase demand charges and to change the demand charge methodology. Jeff reviewed the objective of balancing variable versus fixed cost recovery. The utility's current revenues are heavily skewed to variable energy charges.

Paula Laschober advised that SCL demand charges are designed to recover a percentage of the marginal cost (MC) of the distribution system. Currently SCL recovers 16% of distribution system MC through demand charges (25% of distribution revenue requirement). A survey of large public power companies indicates that on average, they collect 66% of the distribution revenue requirement from demand charges. The range runs from 20% to 100%. The Panel has generally agreed that demand charges should be higher, but the question is how much higher? The utility is proposing an increase to a level more in line with other utilities' rate structures.

Paula explained a scenario in which SCL increases demand charges from the current 16% to 50% of MC of distribution costs. This would increase the percentage of revenue collected by demand charges from 4% to 13%. Bill impacts would depend on load factor. Customers with variable or intermittent usage would likely see their bill go up and customers with more steady round-the-clock usage would likely see their bill go down.

The group discussed and the following questions/comments were raised:

- How are office buildings with multiple tenants meters billed?
- Do we know who is impacted – percentage of and count by this proposal?
- Can it be applied only to new buildings? Maybe SCL could think about a grandfathering clause if they did so?
- Could customer classes be removed from this change?
- Can the time-of-use energy charge differential in Large/High Demand rates be adjusted from 1.5? How does this proposal impact that earlier preliminary recommendation?

The Panel determined to hold off on any recommendations around this issue for now.

Paula then presented a proposed change in demand charge methodology. She first explained the difference between kW (which measures a customer's peak use) and kVA (which measures capacity allocated for a customer). If SCL replaced kW-based demand charges with kVA demand charges, the utility would collect for distribution costs via a kVA capacity charge instead of peaking kW demand. A customer's bill impact would depend on how much of their installed capacity they are currently using. She reviewed pros and cons of moving to kVA demand charges, and then presented a "hybrid" approach in which the demand charges are based half on kVA and half on kW. The Panel asked a number of questions and raised several concerns about the use of kVA in the demand charge calculation. *Please refer to **Attachment A-1** for a summary of the discussion.* The Utility will take the comments under consideration and present a revised proposal at the next meeting.

Ratepayer Outreach on Rate Policy Recommendations.

Maura Brueger spoke on the ratepayer outreach plan to address the rate policy issues now under discussion. The plan is to have a draft policy completed, with Panel input and comment, by the end of September. The final proposal would be transmitted to the Mayor before the end of the year and then to Council at beginning of 2014.

The listening and education phase materials are nearly complete and they are almost ready to launch the website developed. The content of the website will include information on rate policy and rate design, information on forums and events, surveys, links to our rate information and a 'contact us' page where the public can email SCL. They will collect information for the draft rate proposal to be released in the Fall.

Once the draft proposal is developed, they will move on to Phase 2. An outside consultant will help the utility make sure the draft document is concise, easy to understand, and well packaged. The utility will use social media promotions and go to some of the outside groups/audiences, get on their meeting agendas and do presentations at their meeting. The Panel encouraged the utility to ensure that they do reach out to the appropriate outside groups who will have key interests in the rate policy matters.

Action Items

Maura Brueger will confirm the date for the Co-Chairs' Update to the Energy & Environment Committee and the hearing date for the ratepayer engagement resolution.

The utility will advise the Panel Members of the dates and locations of the upcoming AMI Forums.

The utility will confirm back to the Panel whether there will be a Review Panel meeting in August or if it will be a meeting date set in September.

Adjournment

There being no further business, the meeting was adjourned at 5:00 p.m.

Attachment A-1

Write-up from 7/29 City Light Review Panel meeting on proposal to incorporate kVA in Demand Charge Methodology

Data questions:

1. Do we know installed capacity?
2. Are any other utilities using kVA in the design of their demand charges?
3. What is cost to SCL of the un-used distribution capacity—especially if it's been around a long time?

Policy Questions/Observations:

1. Impact on incentives for energy efficiency?
2. What can be done about already installed capacity if customer doesn't want it, use it, or want to pay a charge based on it?
3. kVA seems to remove peak shaving incentive
4. What is your strongest policy argument for doing this? (Jorge's response: right-sizing of distribution system going forward, addressing imbedded inequities)
5. In aggregate, what happens to the customer after we impose all the charges we've been talking about?
6. How were the capacity sizing decisions originally made?
7. What other utilities use kVA? How is it dealt with at other utilities?

Policy Options:

1. Impose kVA-based charges only on new buildings
2. Impose an infrastructure charge in lieu of a kVA based charge. It may be simpler for customers.
    a. Concerns noted with this proposal: it is not as transparent; there may be a messaging challenge since people would assume an infrastructure charge goes away at some point.
3. Only apply the hybrid charge to largest customers
4. Consider adopting a similar approach to that of neighboring utilities with respect to large customers.

Messaging Challenges:

1. People would be concerned that a model where 50% of revenue requirements collected through demand charges would eventually rise to 100%.
2. The examples shown on slide 17 should be re-captioned somehow because the question will come up: "is this what will happen to all hospitals, or only to this sample customer that is a hospital?"
3. The hybrid charge is very complicated.
4. Engage large customers and their associations early in this discussion.

Comments from the Panel regarding Fixed cost recovery:

Consensus: OK to increase demand charges somehow for the commercial & industrial customers to address the fact that the utility has a lot of fixed costs and very little of the revenue recovery is accomplished through fixed charges.

Other comments/questions:

- Can we see another option for addressing fixed cost recovery besides the hybrid?
- Support need to provide SCL greater certainty to meet its revenue requirement
- Concerned about preserving price signal to reduce energy usage
- Could increase demand charges more
- 25% looks plausible as a MC target for distribution, but 50% may be too high. Would prefer to promote decreased power usage as a priority
- Other options to recovering fixed cost should be examined
- Demand charges are a strong price signal to commercial and industrial customers to conserve power, so it's ok to increase demand charges
- OK to move toward a demand charge at 50% MC of distribution, but concerned about incorporating the concept of installed capacity here

Comments from the Panel regarding the "hybrid proposal" and using kVA in demand charge formula:

Consensus: Panel opposed to using kVA alone in sizing a demand charge. Willing to continue to examine the hybrid proposal.

Other comments/questions:

- Opposed to using kVA. The capacity has already been built.
- kVA removes incentive to change behavior, so it's not a good factor to use.
- Hybrid proposal is hard to explain.
- kVA seems awkward even for new construction
- Is the hybrid approach really the best way to solve the fixed cost problem?