"ATTACHMENT A"

**City Light Review Panel Meeting**
**Meeting Minutes**

**Date of Meeting: July 26, 2012**

**MEETING ATTENDANCE**

**Panel Members:**

| Name | | Name | | Name | |
|---|---|---|---|---|---|
| David Allen | x | Stan Price | ✓ | Debbie Tarry | x |
| Tom Lienesch | x | Julie Ryan | ✓ | Eugene Wasserman | ✓ |
| Chris Roe | ✓ | Sue Selman | ✓ | | |
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**Staff and Others:**

| | | | | | |
|---|---|---|---|---|---|
| Jorge Carrasco | ✓ | Tony Kilduff | ✓ | Paula Laschober | x |
| Maura Brueger | ✓ | Calvin Chow | ✓ | Kirsty Grainger | ✓ |
| Kim Kinney | ✓ | Councilmember O'Brien | ✓ | Garry Crane | ✓ |
| Suzanne Hartman | ✓ | Josh Fogt | ✓ | Richard Cuthbert | ✓ |
| Jeff Bishop | ✓ | Phil West | ✓ | Kiley Faherty | ✓ |
| Karen Reed | ✓ | Jim Baggs | ✓ | Rollin Fatland | ✓ |
| | | DaVonna Johnson | x | Kevin Higgins | ✓ |

## Call To Order

The meeting was called to order at 12:00 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 July 11, 2012. The minutes were approved as submitted.

## Presentations / Information

There was no public comment offered.

Karen Reed introduced and welcomed Chris Roe as the newest member to the Review Panel. She advised that Chris Roe was appointed to replace Matt Lyons in the Industrial Customer position on the Panel. Chris is the Electricity Resource Manager at Boeing where he manages Boeing's electricity supply strategy across the country and leads their legislative and regulatory team for energy policy issues.

Superintendent Jorge Carrasco also made an introduction and welcomed to the meeting City Light's new Chief Financial Officer, Jeff Bishop. Jorge related to the group that most recently Jeff was the Managing Director of Finance/Controller at PacifiCorp Energy. Jeff spent the last 8 years at PacifiCorp where he served in a variety of roles including Director of Corporate Planning, Performance Reporting and Technical Accounting and Manager of Corporate External Reporting. Prior to working in a utility environment Jeff was a manager at Deloitte and Touche, LPP as a manager overseeing audit engagements for both public and private companies in multiple industries including utilities, commodity trading and manufacturing.

Chairs Report:

Eugene Wasserman provided the Chair's Report and apprised the group of BOMA's (Building Owners and Managers Association) concerns about the cost allocation and rate proposal. Superintendent Carrasco spoke to the group and affirmed that the utility will spend more time with the BOMA group to understand their concerns and the related cost of service information. He said that he will explain what the investments are in the Strategic Plan.

Jeff Bishop provided a presentation on the rate proposal for 2013-2014. He directed the meeting participants to the handout of proposed 2013 rates. He explained that the previous July 11th version was a preliminary draft and there were a few revisions done which the group can see in this handout dated July 17th. Jeff proceeded through the handout and explained that they would see some substantial movements in the COS (Cost of Service) study. He pointed out the increased demand charge. The 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. He advised that the utility did look at other regional and national players to see how our demand charge compared to the other national players. Jorge commented that what you're essentially doing is sending a price signal to customers. Jeff noted to keep in mind that the handout just showed an example customer – it's not an average customer.

In response to a Panel Member's question, Kirsty Grainger explained that the 1st rate block is designed to cover basic energy needs – electric & cooking (it is higher in the winter months).

Tony Kilduff suggested a change to be made on the rates handout and that the label be changed to "low residential energy user" to be more descriptive.

Jorge touched on the low income customer and said we are identifying this type of customer because they are eligible for a 60% low income discount in rates. It's a very diverse group of customers. There are cases where some low income qualified families use a lot of energy. In the low income assistance pilot, our goal would be to find ways to assist these families in how to become more energy efficient.

Eugene Wasserman asked about the high users in the residential group and asked if the utility had more information on characteristics for residential and assisted residential class, for instance what percentage of total residential load is coming from the "high" users? (Perhaps give an example of a very high use LIRA customer). Kirsty Grainger replied that she could send Eugene a statistical analysis sheet of this information. She confirmed that there are a small number of residential customers that we discovered use a high amount of energy. Eugene asked if the utility could perform a survey to find out why they use so much energy? Staff noted that the utility is planning to address this in the pilot program.

The group discussed more on the handout of the different customer classes and potential bill impacts. The Panel asked if the utility could provide more information on:

- the formulas of how rate blocks are derived and the assumptions used
- the number of customers by class ( i.e. provide meter counts and kWh)
- who are the highest use customers (for example, the top 10 customers from Bond OS?)
- list of class codes and what they mean (what is "MDC", "SMC", "LGD" Etc)
- a description of what falls under the small general service class – i.e. is it the common area of a residential building?

Jeff spoke on the medium city general service customers and he advised this is where you start to see more of a demand charge.

Jorge explained that in most cases when we move to design the rates, we usually use the same structure as what we've designed in the past. In the past, Seattle City Light had very modest demand charges. We are moving to increase demand charges so that it sends the right price signals to customers to use energy more efficiently. It costs the utility more for customers who have spikes in usage. Our aim is to be sure that we are encouraging better management of energy in those customer classes. It's a different way of designing the rate. For those customers that don't have a good load factor (i.e. where the customer has spikes in their usage), the system has to generate enough power to meet that spike at those times so that is why it costs more. Data centers have better load factors because they're running pretty steady all throughout day.

The meeting participants discussed the methodology for rate design. It is still the same as 2007-2008, though the amount of distribution costs recovered by demand charges has been increased. The cost of distribution has increased overall - this is main driver for the increase in demand charges. This impact is very large for network customers because they have more distribution infrastructure than regular non-network customers. Demand charges are still only recovering a small portion of marginal distribution costs, and are substantially lower than other utilities. The 2013 rate impact is diverse because it is a true up to reflect the updated cost of service changes. Jeff advised that 2013 is more a leveling year, and 2014 will be more uniform.

Phil West added that our cost of service is changing because energy prices have dropped.

Eugene Wasserman suggested that when it is time to present this to the Mayor's Office and Council, a narrative should accompany the rate proposal to give the audience ample understanding behind the components of rate review and design.

Eugene Wasserman asked if Finance could show a downtown office building example under the Large Network class.

Jorge said that this is transitioning so that City Light's demand charges are more in line with those nationally. He explained that the utility is aiming to do this gradually so that it is not one big huge jump. It will likely take several years before we get to the appropriate mark. As for each customer class, the utility is not recovering any more revenue, rather the revenue is recovered through different mechanisms to send a price signal to customers. We can identify a hypothetical path and then as the environment changes, we may have to do adjustments to that path.

Jorge acknowledged that the Review Panel has decided not to opine on the 2013-2014 rate proposal. This proposal will now go to the Mayor and Council. The proposal is consistent with current policy.

Karen Reed then welcomed Richard Cuthbert and Kylie Faherty from SAIC Corp. (previously R.W. Beck). They were invited to provide perspective on general industry trends around rate design. Richard stated his presentation is about fixed cost recovery for utilities and how this concept has been used recently.

Richard stated that the majority of utilities' costs are fixed costs of infrastructure and that this is particularly true of Seattle City Light. The major variable for City Light is how much hydro-electric power they get. He said that this is very different from other utilities where they're producing their power from various fossil fuel sources. He said that there's a potential misalignment of revenue when energy costs decline. In the last five years, nationally, utilities are seeing a decline in average energy use levels. This is perhaps a result of the recession but could also be attributed in part to greater energy efficient appliances.

Richard noted that fixed cost recovery is increasingly important for all electric utilities. He said he encourages his customers to move towards more fixed cost recovery now. If they don't, they'd most likely have a rather hard landing later. He commented that it is always hard to change rates for residential rate design because it's always unpopular. Most currently used rate structures do not adequately address fixed cost recovery.

Superintendent Carrasco relayed how Austin Energy imposed a large customer charge to address revenue losses arising from earlier focus on encouraging conservation.

Richard provided information on the issue of fixed cost recovery explaining some possible solutions for more fixed revenues:

- higher customer/basic service charge (misunderstood by many customers)
- introducing a monthly minimum charge
- introducing/increasing demand charges.

Richard noted that AMI allows for a greater variety of ratemaking options for low usage customers (residential, small commercial). He noted that the success of any rate design changes hinges on careful implementation including proactive public outreach efforts, communication with key stakeholders and training of customer service representatives.

Stan Price remarked that he's concerned about losing the volumetric price signal to customers by focusing on fixed cost recovery and recouping more from minimum per customer charges. He was interested in why Richard's presentation didn't address any decoupling issues - has SAIC given that any consideration for other utility clients? Richard responded by saying that he thinks that some sort of minimum charge for residential might help in cost recovery for Seattle City Light.

Richard said that studies have shown that low income customers seem to use more power. The possible explanation for this is that high income individuals have the ability to put in more efficient appliances, better systems – they can afford to put in what's needed for the conservation signals.

Karen Reed introduced Kevin Higgins from Energy Strategies who was in attendance to provide a presentation on behalf of the MIC (Manufacturing Industrial Council). Kevin gave a short summary of his experience saying that he is an economist and works in area of energy policy. His goal today was to succinctly convey the message from large users of electric power. Kevin said that in listening to the previous presentation, he was encouraged by the recommendation to act/move on demand charges – he felt that it would lower the cost for his large customers.

Kevin presented recommendations on behalf of the MIC which included:

*Class Cost of Service Method*

- NWRs (Net Wholesale Revenues) should be allocated in the same manner as energy production costs, consistent with the allocation method that was used prior to the 2007/2008 rate year (his client feels it should be aligned with the associated costs and not include distribution costs).
- Allocate Tukwila and other suburb franchise contract revenues on the basis of each rate class' share of the total revenue requirement rather than restricting this credit to the residential rate class. (In response it was noted that this allocation is a matter of contracts with these cities and creates no financial benefit for Seattle or City Light. Kevin observed that as such, this becomes a "non-issue" for the MIC.)
- Modify the marginal cost of service study to include a demand-related generation component to derive the marginal costs shares by customer class for the Energy Function.

*Rate Design*

- the MIC rejects the concept of inclining block rates for non-residential customers.

*Setting Rates for the Upcoming Rate Period*

- Use the updated cost of service study (July 11, 2012) to guide ratemaking for the upcoming rate period. Apply the cost-based decrease derived in the updated study for High Demand customers.

Kevin thanked the Review Panel for the opportunity to make the presentation.

Tony Kilduff remarked businesses install more energy efficient equipment, etc. to save money. He wonders what additional incentives can be put in place to encourage businesses to be more efficient.

Karen Reed reviewed some of the upcoming topics for next meeting. Thoughts had been to ask a 2nd rate stakeholder panel to come to a meeting – Rocky Mountain Institute, NRDC (Natural Resource Defense Council) and possibly someone from the Major Institutions. Other suggestions were presentations on the low income assistance pilot program, a block rate study, and discussion on server farms.

## Action Items

Eugene Wasserman asked if the Panel could get copies of any of the correspondence letters that Council received. The utility will make that request.

Jeff Bishop and Kirsty will provide Eugene the information requested on high use residential customers.

Karen Reed will work with the Co-Chairs on scheduling in next topics for a September panel meeting.

## Adjournment

There being no further business, the meeting was adjourned at 2:50 p.m.