Attachment A

# City Light Review Panel Meeting
# Meeting Minutes

**Date of Meeting: November 22, 2013**

| MEETING ATTENDANCE | | | | | |
|---|---|---|---|---|---|
| **Panel Members:** | | | | | |
| Name | | Name | | Name | |
| David Allen | ✓ | Stan Price | ✓ | Debbie Tarry | ✓ |
| Tom Lienesch | ✓ | Julie Ryan | ✓ | Eugene Wasserman | ✓ |
| Chris Roe | ✓ | Sue Selman | ✓ | Eric Thomas | ✓ |
| | | | | | |
| **Staff and Others:** | | | | | |
| Jorge Carrasco | ✓ | Rashad Morris | ✓ | Paula Laschober | ✓ |
| Sephir Hamilton | ✓ | Councilmember O'Brien | ✓ | Rollin Fatland | ✓ |
| Maura Brueger | ✓ | Phil West | x | Vanessa Lund | ✓ |
| Kim Kinney | ✓ | Jim Baggs | ✓ | Jeremy Smithson | ✓ |
| Jeff Bishop | ✓ | DaVonna Johnson | x | Nancy Hirsh | ✓ |
| Karen Reed | ✓ | Mike Jones | ✓ | | |
| Tony Kilduff | ✓ | Anthony Colello | ✓ | | |
| | | | | | |
| | | | | | |

## Call To Order

The meeting was called to order at 11:10 a.m. Karen Reed welcomed everyone and began with a review and approval of the agenda. *The agenda was approved.*

## Approval of Minutes

The draft meeting minutes of November 1, 2013 were shared with the Panel.
The Panel Members took a moment to review the revised draft minutes which contained minor edits. *The minutes were approved with the corrections as noted.*

## Presentations / Information

*Public Comment:*

Jeremy Smithson from Puget Sound Solar spoke during the public comment period, in opposition to the proposed concepts for change in residential rates. He expressed concern that the decrease in the price of the second block of power would increase customer bills. He encouraged the Utility to consider buying back power from those customers generating solar energy at different rates, specifically, crediting these customers for energy sold in kwH, rather than in dollars.

Nancy Hirsh of NW Energy Coalition also offered comments. She noted that the current rates, with minimum fixed rates and tiered blocks are a great initial structure. Looking ahead, rather than increase the basic service charge, she would like to reduce the size of the first block of power, and add a third block at a higher price than the 113% of Marginal Cost proposed for the second block. She would like to see this type of proposal analyzed. NWEC's goal is to provide incentive for conservation and help low income customers.

Chair's Report:
Eugene Wasserman noted that with the election results, we may see some changes in City Hall affecting the Panel's work. Eugene congratulated Councilmember O'Brien for winning another term on Council. Eugene noted that it will be important to engage with the new Mayor so he knows about our work and the strategic plan effort. Also, we don't yet know who will chair the Council Committee who will oversee City Light.

Communications:
Kim Kinney advised there were two items of communications sent to the general mailbox. One, from Eric Fisk, was forwarded on to the Councilmembers talking about a new approach to rates. Another was from the bookkeeper at the Aloha Inn, Joy Estill; she proposes a new category for non-profit entities providing living space to at-risk populations.

In response to Ms. Estill's correspondence, Jorge Carrasco noted the Utility has not created a low income non-profit category and expansion as proposed would be complicated. The nonprofit sector is quite large. Changes like this would mean costs would have to be picked up by other customers. Some Panel members noted the challenge of a slippery slope in moving this direction; could a rate category be limited to nonprofit housing? It was noted that is also a large sector. Jorge noted there are conservation programs that may be helpful for these types of customers and that they may want to take advantage of those programs. Staff will take a look to see what opportunities might be available to direct attention to that area. Generally, the Panel did not think this was something that they needed to do more analysis on. Karen will draft letters for signature by the Co-Chairs to the two correspondents thanking them for their communications.

Panel Discussion: Current Rate Structures and the Rate Concepts Under Discussion:

The next ninety minutes of the meeting focused on the Panel Members providing their thoughts on the rate structures and concepts discussed to date.

Tom Lienesch: The potential proposals from the utility are complicated by history, technical complexity and implementation issues and simply by causing change for customers and businesses who like predictability.

The key is to know what it costs to produce services for a customer so one can identify the costs and impacts of policies and initiatives: implemented rates have lagged in reflecting the level and character of true costs as the current rate structures rely too heavily on energy charges. It is out of balance but not a current crisis.

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

Overall, I support measured moves to a more efficient rate structure that is a better approximation of what it costs to serve customers. The utility needs to help customers understand the cost of serving them (total $) and the nature of those costs (fixed and variable). In addition, I support efficient use of energy through price signals; (strongly support) the low income proposal; and actions to promote conservation.

Reducing energy charges and (therefore) price signals to conserve will not be easy to implement with limited political and public support. With limited support for change the business case needs to be compelling. Revenue stability isn't likely to be that compelling. We may need to just accept this (low level of support) and move forward.

Given the complexity of the issues, perhaps we need a strategic rate plan either as a component to our current strategic plan or as a stand-alone. By including it in the strategic plan process, rate issues can get important up-front buy-in with the utility presenting a solid business case for any change.

Councilmember O'Brien question to Tom: Isn't it difficult to identify the real cost because fixed and variable costs are hard to always clearly distinguish? Tom said he will give this issue more thought.

Sue Selman: I support what Tom said. We should know the true costs and people should pay their fair share. Easing towards this goal is good. Rate design is complex and explaining it to the public is going to be very difficult. Presenting a solid business case and showing customers how their fair share of costs is calculated will be extremely important.

David Allen: This has been educational. Ascending blocks are good. I'm worried about a rate structure that totally matches fixed costs to fixed rates. In Los Angeles, rates have doubled in a decade but residential bills are the same—people are using less energy; this is a good data point. SCL staff have been good on this issue. Commercial folks are heavily in to energy efficiency and it's become a market driver. "Dashboarding" and transparency are important to them. Generally, we're going in the right direction with these proposals. We must address the low income situation. The electric utility business is changing across the country. I'm comfortable with predictable, long-term solutions; I'm okay with the status quo and I want bills to go up if you use more. Americans generally do not understand the true cost of service.

Eric Thomas: In terms of the Current Residential Rate Structure, I think the 2-block structure good, a 50% Base Service Charge is OK; and the low-income rate assistance program good. The current rate structure does a decent job of sending a price signal despite the relatively low variable rates we pay in Seattle. To encourage investment in energy-efficiency and distributed generation and meet the goals of the Climate Action Plan, I would like to see a continued emphasis on collecting revenue through variable rather than fixed rates.

In terms of the Proposed Residential Rate Structure, I think maintaining the 2-block structure is good and is in keeping with guidelines from City Council. Eliminating seasonal variability for the sake of simplicity is a good idea. However, I think increasing the base service charge from 50% to 75% is a move in the wrong direction: this means consumers have less opportunity to lower their utility bills by making a long-term investment**s** in conservation or clean-energy generation; it unnecessarily shifts financial risk from the utility to consumers, and pushes the break-even point for consumer investments farther into the future. Lowering the first block rate is better than the utility's first proposal, which would have drastically raised the electric bills of low-kWh users and lowered the bills of very high-kWh users. However, this is still a flawed solution. Super-low first-block rates will put the brakes on the solar industry in Seattle. Households that have already invested in weatherization and energy efficiency (prime candidates for solar) will see little financial gain for investing in solar when their rates are less than 3 cents per kWh.

In general, I think adjusting rates can and does happen periodically to meet the revenue requirement, and SCL has a good track record for predicting revenues. We should only change the rate *structure* if there is a clear and compelling need. I don't see the need for some of the changes proposed. The residential rate design proposal on the table would make sense for an investor-owned utility, which is accountable to shareholders; however, being a public utility, SCL is accountable to Seattle residents, who may have different priorities. I would like to see a rate design proposal that continues to encourage homeowners to invest in weatherization and solar. The current rate structure is fine. We should only change it if there's a compelling reason to do so. Use of political capital here doesn't seem worth it. The ratepayer survey showed little concern with the current structure.

Julie Ryan: I like the current tiered rates but I am concerned that we have too much of our revenue recovered from variable rate energy charges as compared to other electric utilities. Micro grids and distributed generation are changing the utility model, where more and more customers are becoming producers of their own energy and are becoming sellers of energy. I think the utility should be planning for this and taking steps to change their rate model to adapt to what is coming down the road. In terms of policy goals, I'm focused on equity, financial viability of the utility and continuing to promote efficient use of energy. In terms of the new rate design proposals, I think the proposed changes to residential rates are good- the shift in the low income, the removal of seasonal rates and the raising the basic service charge, as this covers only minimal fixed costs relating to the meter. However, I feel the move to a 50% marginal cost recovery target for larger customers is too much too fast, but some move in this direction is appropriate, perhaps 25%. In terms of public communication, we need a well-articulated problem statement. The utility should translate for the public – "here's what the situation is, this is what the financial analysis looks like with people changing over to things like solar, other energy efficient solutions." For example, can the utility quantify how different levels of solar rooftops and other types of self-generation translate into rate impacts for the other customers. The survey is helpful – this gives is ideas on wording, such as impressing upon customers the rate design does not mean raising rate and the utility remains committed to its conservation and energy efficiency programs. We must acknowledge the trade-offs in policy in rate design, so customers will understand them as well. Decoupling could be helpful (and stabilize cost recovery), but when combined with other rate design issues it's too confusing, and the utility may want to try it later on. Those of us on the Panel represent different interest groups, and in addition to expressing our views here, they may need to express them in other forums. Therefore it is valuable for the utility to hear the different perspectives of each member's views on the proposed rate design in this forum.

Anthony Colello: is there agreement on the problem statement? It is important to understand this.

Chris Roe: My thanks to the utility for their work on these issues. I like and support the matrix presenting the issues and goals, but feel that economic development needs to be a consideration for our policy objectives as it is important to develop rate designs that attract and retain key business here in Seattle. This is a concern, and in my view, a current policy gap that deserves more consideration. I don't believe the problem statement prompting the revised rate design is clear and would like to see the issues better defined and quantified. As we've seen from previous presentations, the utility has great revenue stability in recovery from end users. And while is therefore no crisis yet, we should plan ahead, so some movement towards higher recovery from fixed charges is appropriate. That said, I'm not sure where the sweet spot is between fixed and variable charges. The residential rate proposal looks acceptable; I like the block structure, feel it retains a good price signal, and could support a third block so long as simplicity and transparency are considered to ensure residents understand their bills. I support the low income rate proposal and feel it remains generous so long as we commit to increasing the number of eligible folks signing up. With regards to rates affecting business customers, I feel the current proposal to collect 50% of marginal costs is too high. If we look at high demand customers, City Light's demand charges are currently among the lowest on the West Coast; but going to $5 per kW for peak demand puts us near the top locally, and we need to consider our regional competitiveness. I would therefore support a kW charge in the range of $2-3 per kW with a commensurate decrease in the energy charge, as I believe it is important to ensure our rate design keeps business electrical costs for manufacturers competitive with our neighbors in Tacoma, Bellevue, Everett and beyond.

David Allen: True economic impact should be considered—large employers help the region. Rate setting should be designed in part to promote employment.

Debbie Tarry: I am interested in long term stability, efficient operations and supporting a vibrant economy. Those are my priority principles. Appreciates utility's thorough review of what goes into rate structures – will be difficult to translate to customers. Rates should be predictable and reliable to help our customers manage their bills. Overall, I support some adjustment on the fixed cost side. Supports the block structure and supports move to 75%. Infrastructure maintenance needs to be considered. It is good for the utility to be pro-active here. Communicating these issues to the public will be tough. Rates will need to increase. I'm okay with what the utility is proposing for residential rates and low income rates. I would like a measured approach on the low income subsidy level to match with growth in participation in the program. I agree with Chris that the large customer's peak demand charge is too high. We do need to trend towards increasing fixed charges.

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

Stan Price: I am not unhappy with existing rates. Residential ascending blocks are good as it sends the right price signal for energy efficiency. Commercial rates have some differentiation at consumption levels and this is good. The downside of the current structure is the net wholesale revenue that is a big part of our risk of revenue recovery. The Rate Stabilization Account solution helps but there is a structural flaw in the forecasting that increases risk. So, I'd focus on the net wholesale revenue issue in order to address revenue stability. Revenue problems are on the horizon, but not in the near term. In terms of policy goals, fairness is good but it's in the eye of the beholder. There are cross-subsidies everywhere in rates. Public utilities can address these issues in ways that IOU's cannot. The City Council and the Mayor set policy parameters that help define what fairness means. If we look at the Council's goal for SCL rates, it was to maximize energy efficiency. When we talk about fairness, we need to do so in the broadest analytical context. Economic development is also important. I think the commercial rate proposals go too far. The energy charges drop too low and the demand charges are too high. Some migration is needed, yes, but this is too much. We should aim for demand charges to be closer to peer utilities but still send a good price signal for efficiency in our energy rates. In terms of decoupling, I view it as a mechanism to true-up for unknowns. The utility's proposal to integrate retail rate recovery with the RSA is an intriguing one, for consideration now or later.

Eugene Wasserman: I'm interested in the goals. We're financially stable now. There's not a compelling need for change. Our bond rating is very high. Maybe there will be issues in the future. On the residential rates, my priorities are transparency and equity. For me, this means no blocks of energy—just a single block. It also means no Basic Service Charge. In terms of commercial ratepayers, my priorities are predictability and equity. I would move to more fixed charges but not as high as those being proposed. We are a green utility that has seen big growth in population without load growth. Surplus energy is weighing down on us. So we're pretty unique. We should encourage more energy use in companies that benefit Seattle and use our energy surplus to promote the right kind of economic growth. I don't think residential price signals today are meaningful, so I would not focus on preserving them. To the extent there is a price signal for renters, they can't do anything to control their bill. Wouldn't mind seeing more work on the residential. I am generally okay with the commercial proposals. I think we should discuss in the strategic plan update how to strategically use our energy surplus.

The group agreed to the following general re-cap of consensus points:

- Generally, the Panel supports a shift towards increasing demand charges, but the shift included the concepts on the table go too far, particularly for the high-demand customers.
- Most, but not all, members are comfortable with the proposed changes in residential rates.

Tony observed that the City needs a broader discussion of the situation with policymakers to help them frame the situation. Some interim moves are helpful to buy time. The situation is not urgent. The policy makers need a more contextual understanding so we don't sneak into this incrementally. He hopes the Panel will engage the Council on this issue. The time frame involved is longer than that of the 6-year strategic plan. He suggested thinking 10-15 years down the road and how the utility business model will change – there will be lots of implications down the road. He recommended engaging policymakers in discussion of what is going to happen over a longer period and how the utility will need to position itself to meet the evolving electric utility area. He encouraged the idea of developing a strategic rate policy.

Stan agreed that we have a valuable resource in our excess power supply. We should recognize the opportunity to attract better economic development in the city, hopefully in a way that provides increased stability in utility revenues.

Eric asked about the excess electricity – do we get it only at certain times of year? Jorge advised that this is a complex issue. Peaks in supply and demand occur at different times of the year. The utility tries to give the customers the best value for the excess power. If anything, the excess gives us an additional tool to address financial stability.

Julie asked if the utility could give the Panel a look at the balancing and peaks and non-peaks of load in January.

SCL Proposed Outreach Plan for Testing Rate Concepts with Customers:

Sephir Hamilton spoke on the proposed Phase II Ratepayer Outreach to be conducted in December and January. Vanessa Lund from Cocker Fennessy will help the utility craft messages and printed material for the outreach. They will work on a generic outline of what the public outreach should look like and will tailor presentations to each stakeholder audience.

Some of the outreach meetings planned include a December 5th meeting with the NW Energy Coalition; on Dec. 17th, the utility will be at the Seattle Chamber Meeting. Other meetings being scheduled include: large customers, industrial, hospitals, neighborhoods, suburban franchise cities. Review Panel participation is welcome.

Sephir said the Utility wants to reach ensure people feel informed. We will shape the concepts into easily understood language for the public. As for themes, we will message that it is not about rate increases. The utility will highlight that the way rates are now calculated is dated and we are looking to move to simple, fair prices that more adequately reflect the true costs of serving each customer. We also want rates that encourage conservation. We will set the context around how the utility is carbon neutral, talk about the work that the Review Panel has done, the six year strategic plan, and the changes that will make prices simple, fair and predictable.

Sephir asked the Panel for their feedback on the described outline. A Panel Member suggested adding that "the utility remains committed to conservation funding" in one of the outlined points.

Sephir said that SCL is at a key inflection point in the industry with the installation of solar panels, changes in industries, adapting to electric consumption, and technologies such as AMI & electric cars. In some cases, low income users may end up shouldering the burden of increased prices if there's a rise in other residential customers putting in solar panels, etc.

The outreach will attempt to explain some of our proposed concepts – shifting electric prices to charging prices that are more true to their cost of service and striving to make the public understand what their true cost of service is. The outreach will also explain the low income subsidy changing to 50% with the plans to expand the low income program to reach more of these customers.

The Review Panel provided the following observations to consider adding to the outreach meetings:

- The problem statement needs to be sooner in the dialogue.
- SCL is a major contributor to the attractiveness of economic development and growth – key factor in why people would site their businesses here.
- Missing the nuance here; we can continue to do what we're doing and eventually drive off the cliff. There may be other mechanisms that may help with rate stability.
- Yes, it is not an immediate crisis but we need to be very mindful of the changes that are happening in the marketplace – and prepare for these changes that are ultimately coming.
- Make the public understand that the utility is repositioning itself to adapt to industry change and the associated impacts that will come over time. They have to be in a position to address the ramifications of coming changes.
- Remind folks about the concept of net zero sum gain.
- Work on defining the problem more clearly. If you have statistics about how many peoples' bills would go up, communicate that and then explain what would happen if the utility did nothing and explain when the utility would start to see the impacts of doing nothing.
- Some felt that the "do nothing" route was not the correct route to go.
- There are important equity issues involved.
- If there are certain municipal utilities seeing an increase solar installations and the like, can SCL research some of these city examples to show their comparative level of fixed cost recovery through rates?

Tony offered that the persistent imbalance in reality of the Net Wholesale Revenue forecast needs to be teed up with Councilmembers, as well as Denny substation overage and the CIP changes resulting from that.

## Action Items

The utility will work on how to roll out the next update of the strategic plan, the IRP update, the climate update, and the baseline update.

## Adjournment

There being no further business to discuss, the meeting was adjourned at 1:50 p.m.