# City Light Review Panel Meeting
# Meeting Minutes

**Date of Meeting: November 15, 2012**

| MEETING ATTENDANCE | | | | | |
|---|---|---|---|---|---|
| **Panel Members:** | | | | | |
| Name | | Name | | Name | |
| David Allen | x | Stan Price | ✓ | Debbie Tarry | x |
| Tom Lienesch | ✓ | Julie Ryan | ✓ | Eugene Wasserman | ✓ |
| Chris Roe | ✓ | Sue Selman | x | Eric Thomas | ✓ |
| | | | | | |
| **Staff and Others:** | | | | | |
| Jorge Carrasco | ✓ | Tony Kilduff | x | Paula Laschober | ✓ |
| Maura Brueger | ✓ | Calvin Chow | ✓ | | |
| Kim Kinney | ✓ | Councilmember O'Brien | ✓ | Rashad Morris | ✓ |
| Suzanne Hartman | ✓ | Josh Fogt | x | Diane Clausen | ✓ |
| Jeff Bishop | ✓ | Phil West | x | Christie Baumel | ✓ |
| Karen Reed | ✓ | Jim Baggs | ✓ | Rollin Fatland | ✓ |
| | | DaVonna Johnson | x | | |
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## Call To Order

The meeting was called to order at 1:05 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 October 25, 2012, including suggested edits from Julie Ryan; the minutes were approved as per her suggested amendments, with some additional clarifying language to be provided by utility staff.

## Presentations / Information

There was no public comment or general mailbox emails to report for today's meeting.

Jim Baggs reported that the Northwest Energy Efficiency Alliance (NEEA) is conducting a comprehensive assessment of residential buildings in the Pacific Northwest. A summary handout on the study is in the meeting materials. The study will develop a profile of existing building stock in the Northwest to help identify what energy efficiency utility programs make sense for the region's utilities to offer. The final results will come next March.

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Chairs Report:
Eugene Wasserman said he was pleased to see Seattle City Light sending crews to New York to assist with the disaster response effort following Superstorm Sandy. He noted that "reliability" is an important element of the Strategic Plan and he was proud of City Light's response and support in New York.

Superintendent Carrasco thanked Eugene for his comments and described the work of City Light crews in New York, and the logistics of getting them and their equipment to New York and back, with assistance from the Governor's Office and the Department of Defense. The utility has received many thank you letters from residents of Long Island expressing their appreciation to our crews.

Karen Reed addressed the next item on the agenda which was the panel discussion on rates and rate policy. She reviewed packet materials which recapped presentations previously heard by the Panel relative to rate issues. Today's discussion is to get feedback from the Panel on what issues they would like to take up in the coming year around rates and rate policy.

Superintendent Carrasco said staff will review customer concerns to see if there are areas that need more attention in designing our rates and report back to the Panel.

Panel members discussed rate design and cost of service issues. Some of the comments and ideas raised were:

- Rate design is an ongoing task on the Panel's workplan; it will happen every two years.
- The Panel should submit its recommendations on rates and rate policy in the first quarter of 2014 to be timely to the deliberations on the 2015-16 rate cycle.
- A more detailed timeline on the rate process would be helpful.
- How can rate policy provide improved predictability / certainty for customers?
- More discussion is desired around the design of residential block rates. For example, should the incremental block increase be the same for homeowners and renters?
- Would rate design be significantly different if it was based on embedded costs rather than marginal costs?
- Analyze the pace of growth in demand and where it is coming from.
- Additional information is requested on demand charges and how the utility expects them to change in the next few years. It was noted that SCL's demand charges are lower than others in the region and nationally.
- What is appropriate balance between demand and energy charges?
- Given the complexities of rates, the Panel should clearly articulate its proposed workplan to the Mayor's Office and Council up front.
- Additional information is requested regarding rate decoupling.
- Additional discussion should occur about how to incentivize more energy conservation. Strategies may be different for renters, homeowners, and low-income households.

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Please also see attached Exhibit which provides additional detail on the Panel's rate policy discussion.

Next, Jeff Bishop reported on further progress on the development of the Strategic Plan tracking dashboard. The goal of the Strategic Plan initiative tracking report is to improve the transparency of the Strategic Plan and to report on the initiatives the utility is committed to delivering. In the proposed tracking dashboard, the progress of the initiatives would be reported under the four priority areas in the Strategic Plan:

1) Improve Customer Experience and Rate Predictability;
2) Increase Workforce Performance and Safety Practices;
3) Enhance Organizational Performance; and
4) Continued Leadership in Conservation and Environmental Stewardship.

The report will provide an overview showing progress of the initiatives, major criteria used, and performance assessment including major milestones and quantifiable metrics. Sub-bullets will provide additional clarification as needed, including any material variances in actual versus target experience. At this point, the report is more for illustrative purposes; the first report out will occur after the first quarter of 2013. Internal reporting will occur on a monthly basis, with quarterly dashboard reports to the Panel and Council. The Panel Members agreed that a quarterly report would be a good start.

Jeff advised that he would be taking the Strategic Plan dashboard to the City Council very soon. Once Council and Panel views the first set of quarterly reports, the Utility can adjust the format and content as appropriate based on feedback. The Utility will do an annual true-up report as well.

The Panel asked Jeff to link the longer term perspective into the quarterly snapshot as well.

The Panel asked about the possibility to post the tracking report on a website? It would be very helpful if that could be done and also if some sort of hyperlink could be placed within the document in which people could drill down on an item to explain more detail.

Eugene Wasserman introduced the next agenda item saying that there were several recommendations from the Climate Action Agenda that involved City Light. He felt that it was important for the Review Panel to discuss this topic to ensure that the Climate Action Plan synched up with the utility's Strategic Plan goals.

The group welcomed Christie Baumel from the Office of Sustainability and Environment who was in attendance to provide an overview of her work with the Climate Action Plan. Christie reported that in 2010, the City announced a goal to be carbon neutral. A Mayor appointed Green Ribbon Commission is brainstorming on what is most important to include in the plan to achieve this goal. They have done a lot of analyses, technical assessment, performed a lot of stakeholder outreach, and convened technical advisory groups. The Climate Action Plan is intended to focus on things that the City can influence. Their recommendations are grouped into

four main categories – Core, Leadership, Quick Start Actions and Guiding. Christie pointed out items where City Light has a significant role. Within the "core" recommendations, focus is on financing tools that will increase investment in energy savings—specifically, mechanisms that pay for energy upgrade costs based on actual energy savings as realized, rather than forecast. Jim Baggs confirmed that the pilot project on this idea is underway and they are soliciting building owners to participate.

Christie noted other endorsed ideas, including building retrofit incentives, supporting AMI and smart meters, carbon neutral electricity and facilitating further adoption of electric vehicles in Seattle. Her handout summarized some of the most recent stakeholder effort; a formal public draft report should be completed soon.

Christie said that the technical proof of concept shows that the City can get to 92% carbon neutrality. City Leadership will have to consider other options to get to the 100% goal.

Superintendent Carrasco confirmed that many of the things in the Climate Action Agenda are incorporated in City Light's Strategic Plan.

## Action Items

The utility will identify additional potential rate design issues for the Panel to consider.

The December 20th meeting may be cancelled—if so, Kim Kinney will send a cancellation notice.

## Adjournment

There being no further business, the meeting was adjourned at 3:35 p.m.

Exhibit to Minutes of 11/15/12

**Initial City Light Review Panel Discussion on Rate Issues**

**Write-Up of Panel Discussion, November 15, 2012**

*(Italicized comments from SCL Leadership)*

**Scoping the discussion** (What the Panel generally wants to accomplish with regards to rates; what that work product will look like):

Comments

- Strategic Plan set the revenue requirements for the 6-year period, and the Plan is subject to update every 2 years.
    - *A major part of the first update will be to add two years to the plan (2019-2020).*
- Rate design is in essence the strategy to assure that the revenue requirement is realized.
- *Preliminarily, the Utility anticipates looking at rate design issues around:*
    - *Demand charges*
    - *Revenue stability*
    - *Customer input*
    - *Cost of service study.*
- The Panel should have the opportunity to review and respond to the Utility's recommendations.
- Members anticipate a policy level discussion, rather than details on implementation.
- Panel may wish to weigh in on how to balance or prioritize among the conflicts between the competing rate design objectives
- *Three key objectives in rate design that are potentially in conflict include:*
    - *Rate stability*
    - *Equity*
    - *Efficiency*
- It may be helpful to affirm some of the current policies, and/or anticipate future issues.
- Panel may wish to reflect on the long term impact of current rate policies.
- Review of rate design is an ongoing task that the Panel will return to every couple of years.
- *Rate recommendations from the Panel should be submitted by the end of the first quarter of 2014 to have impact on the next biennial rates (2015-2016).*
    - ***"To Do" for SCL**: Create a timeline, including considerations of public outreach, for how the rate design recommendations will be incorporated into development of the next biennial rate setting process.*
- Rate design will be a new discussion for the public.

Policy Issues Panel Members Identified for Review (including from discussion of Resolution 31351):

- **Residential block structure** – should it be changed? In particular, is differentiation appropriate for rental properties? Do lifeline rates still make sense?
- **Structure of low-income rate subsidy**. Does the credit work appropriately within the current block rate structure. (Related issue: **implementation of low-income rate subsidy** –securing better participation in the low-income rate subsidy program)
- **Review of marginal cost versus imbedded cost rate structure and rationales for each**
  - *SCL has a blended rate structure in place—in some ways a marginal cost structure, and in other ways an imbedded cost structure*
  - ***"To Do" for SCL:*** *Develop a briefing to compare marginal versus imbedded cost rate structures and policy rationales for each.*
- **How is growth in demand paid for in the current rate structure?**
- **What is the appropriate balance between demand and energy charges, particularly as it affects rate predictability?**
- **Should we make a statement as to the appropriate balance between key rate policy objectives (stability, equity, efficiency)?**
- **Do rates adequately encourage efficient use of electricity?**
- **Should de-coupling be incorporated into rates in some way to remove disincentives to investing in energy efficiency and increasing certainty of recovering the revenue requirement?**
- **Is rate simplification appropriate—to make it easier for customers to understand how their actions will affect their bills?**
- **Should network rates be uniform across the system or distinct as between the various networks?**

Other Comments:

- Panel will likely need to prioritize the issues to take a look at. Where can we provide the most help as a panel, since our time is not unlimited?
- Panel will want to maintain communication with key stakeholders as this discussion proceeds.
- ***"To Do" for SCL****: A background briefing on the Integrated Resource Plan.*
- ***"To Do" for SCL****: Briefing for Panel on Lessons Learned from Superstorm Sandy.*
- Outreach needed to explain network rates to network customers.

**Resolution 31351: SCL Rate Policies**

| *Language from Resolution:* | *Panel Comments:* |
|---|---|
| **Section 1. General Statement for Rate Setting Objectives** | |
| **A. Conflict Among the Objectives**<br>The objectives are intended to provide a general policy framework that can be consistently applied to future rate | This is an overarching issue.<br><br>How can we best articulate the needed |

| *Language from Resolution:* | *Panel Comments:* |
|---|---|
| reviews. Because some policy objectives may conflict with others, they should be considered in their entirety to strike an appropriate balance among them when establishing electric rates for customers of City Light. | balance? |
| **B. Efficiency**<br>Rates should be structured so as to encourage the efficient use of resources needed to provide electrical service. This theme will find explicit expression in the allocation of costs among customers and in the design of rates to collect the appropriate shares. | How well does the current rate design incentivize efficiency? |
| **C. Rate Predictability**<br>(i) The level of base rates (that is, before surcharges) should be changed in an orderly way over time so as to avoid disproportionate rate changes in any given year. This goal is most likely to be accomplished through biennial updates to City Light's strategic plan and financial policies which drive its revenue requirements and hence its rates.<br>(ii) The structure of City Light rates should also change in an orderly way so as to avoid large changes for some customers or customer classes. Should changes in costs of service or rate design that disproportionately impact some customers or customer classes be deemed necessary to meet the goals of these policies, those changes may be phased in gradually to moderate the impact on the affected customers or customer classes. | Decoupling gives utilities greater certainty of recovering the revenue requirement.<br><br>Demand charges promote rate predictability. They increase the incentive to reduce peak energy demands – this is one type of efficiency. |
| **D. Public Involvement**<br>City light should make available to its customers clear and understandable information about the level and structure of its rates and any proposed changes to them, and should provide its customers the opportunities for meaningful participation in the rate-making process. | Concern about transparency of the rate structure. Is it too complicated to understand how to manage one's bill? |
| **Section 2 Revenue Requirements** | |
| City Light's revenue requirements should be consistent with the strategic plan and financial policies adopted for it by the City Council, and electric rates should be sufficient to meet its annual revenue requirements. | Do rates promote certainty of recovering revenue requirement? Rate decoupling would promote certainty here.<br><br>Is there a simpler mechanism to capture the various types of uncertainty in the rate structure? We now have the RSA, a BPA pass through, conservation programs |

| *Language from Resolution:* | *Panel Comments:* |
|---|---|
| | and possibly de-coupling. |
| **Section 3 Cost Allocation** | |
| **A. Marginal Cost of Service**<br>To encourage the efficient use of resources, rates should be based on the marginal cost of service to the customer, and should reflect changes in the marginal cost over time. | *(Presentation pending on comparing marginal cost to imbedded cost structures)* |
| **B. Equity**<br>Rates should reflect a fair apportionment of the different costs of providing service among groups of customers, generally referred to as "customer classes" or "customer rate classes." | |
| **C. Conservation Expense**<br>Since the City considers that conservation is a power resource, conservation expenditures shall be allocated to all customer rate classes. | How much will SCL's conservation goals cost?<br>Should policy be reaffirmed? |
| **D. Low Income Rates and Bill Payment Assistance Expense**<br>The costs of providing low income rates and bill payment assistance to low-income residential customers shall be allocated to all customer rate classes. | This may be an area where the Panel should review and reaffirm current policy. |
| **Section 4 Rate Design** | |
| To further the City's desire to encourage the efficient use of both power supply and power distribution resources , City Light's base rates should be designed and structured to include the following principles: | |
| **A. Higher Rates for Higher Consumption**<br>Where possible, rates should increase as consumption increases. This may be accomplished by establishing thresholds that define ever higher blocks of energy consumption, each block having a higher rate than the preceding block. Such increasing block rates are intended to encourage the efficient use of electricity. Should they be applied to classes other than Residential, the rate design should be carefully tailored to meet the Council's objectives of encouraging the efficient use of electricity and encouraging economic growth. | Panel would like to review and discussion current residential rate block structure.<br><br>Unclear how block rates could be applied to other customer classes. Where is their power use controllable? |
| **B. Demand Charges**<br>Rate schedules that include demand charges should not contain declining demand charges. | SCL's demand charges are much lower than others in the region, nation.<br><br>*SCL will give a presentation on this;* |

| *Language from Resolution:* | *Panel Comments:* |
|---|---|
| | *expect to see these trending upward.* |
| **C. Residential First Block**<br>The residential first block of electricity is intended to meet the essential needs of residential customers and should be priced at or below the average cost of service to those customers. Rates for subsequent blocks within the rate class should be set to recover any subsidy provided by the first block. | Does the "lifeline" rate still make sense? Panel should look at this. "Lifeline Rates" feel like a double subsidy when combined with the low income subsidy. |
| **D. Rate Discounts**<br>When a customer provides a portion of City Light's service infrastructure (such as a transformer owned and maintained by the customer), or when the customer is metered on the utility's side of the transformer (instead of the more usual customer-side metering), the customer will receive a discount on rates reflecting the reduction in cost of service to the utility. | *There are very few customers affected by this.*<br><br>No issues here. |
| **E. Time of Use Rates**<br>City Light shall implement time-of-use rates, whether seasonal, daily, or hourly, where such differentiation options are reasonably feasible. | Given that SCL has yet to implement smart meters, this issue is not ready to be tackled in this upcoming rate cycle. |
| **F. Low Income Rates**<br>In all of its actions, the City has an interest in protecting the most vulnerable members of the community. Rates for qualified low-income residential customers shall continue to be lower than regular residential rates by at least 50%. | What type of energy audits does the Utility do?<br><br>How well is the Utility connecting with ESL communities?<br><br>How can the Utility differentiate in its policies between renters and landlords? |
| OTHER ISSUES RAISED BY PANEL MEMBERS:<br><br>**Network Rates**: Should these rates be unified across the system, or by network? | |

**Appendix:**

1. Background summary on Panel briefings
2. Panel Role per Ordinance 12356
3. Strategic Plan Initiatives Relating Directly to Rates
4. SCL's guiding financial policies per Council Resolution 31187

## Appendix

### 1. Background:

Since April 2012, the Panel has heard a number of presentations on rates, including:

- Introduction to rates, cost allocation and related policy issues (presentations by Paula Laschober in April, May, June and July).
- SAIC presentation on utility rates—"Increasing the Effectiveness of Electric Utility Rates: How to increase fixed cost recovery while meeting efficiency objectives and maintaining customer acceptance" (Richard Cuthbert, July meeting).
- Presentation by the MIC (Kevin Higgins, Energy Strategies, July) on "Rate Design and Cost of Service Issues for Large Energy Users" regarding: allocation of Net Wholesale Revenues, allocation of Franchise Contract Revenues, allocation of Generation Capacity Costs; Opposition to Resolution 31351 language supporting higher rates for high consumption for non-residential customers.
- Presentations on Rate Decoupling to address incentives and disincentives to investing in energy efficiency (NRDC/Ralph Cavanagh and NWEC/Nancy Hirsch, October).
- Presentation on the Low Income Assistance Pilot (Phil West and SCL staff, October).
- SAIC presentation on block rates "Use of block rate structures in electric utility ratemaking: Options for City Light to consider in modifying residential rate blocks (Richard Cuthbert, October).
- Report submitted about marginal cost rate alternatives from Greg Hill (originally submitted in March as part of the strategic plan input process).

### 2. Ordinance 12356 Creating the Review Panel states as follows with respect to the Panel's scope of work around rates:

"The Panel shall...

4 (d) Review changes to City Light's rates not already authorized by the Seattle Municipal Code and provide an opinion to the Mayor and the Council on the adequacy and prudence of such rate changes in light of adopted planning assumptions and financial policies.

4(e) in its second year or earlier, and at least once every three years thereafter, assess City Light's rate design to ensure that rates send the appropriate signals to customers to use electricity efficiently; and

4(f) in its second year or earlier, and at least every three years thereafter, assess City Light's implementation of marginal cost allocation among customer classes to ensure that it provides a fair allocation of costs among customer classes and takes account of changes in costs and consumption."

3. **The Strategic Plan includes three initiatives directly addressing rates and rate policy issues:**

| |
|---|
| Strengthen ratepayer advocacy in the rate setting process (**Initiative CR3**) |
| Tools to reduce potential rate shocks (**Initiative CR2**) |
| Cost of Service and rate Design Policies (**Initiative CR4**) |

4. **City Light has two Council-adopted "Financial Policies"**

(from City Council Resolution 31187 adopted 3/22/2010)

Rate Setting Guideline: It is the policy of the City of Seattle to set electric rates for the City Light Department at levels sufficient for it to achieve a debt service coverage ratio of 1.8.

Debt Policy: The City Light Department will manage its capital improvement program so that on average over any given six- year capital improvement program it will fund 40% of the expenditures with cash from operations.