



Initiative #3: Revenue Recovery and Rates

INITIATIVE INFORMATION

Business Unit/Division	Financial Services						
Initiative Executive Sponsor	Paula Laschober						
Initiative Project Manager	Kirsty Grainger						
Legally mandated/Required?	No						
(\$000's)	2019	2020	2021	2022	2023	2024	Total
O&M \$ Amount							
CIP \$ Amount							
Total \$							N/A
FTEs assigned							N/A

INITIATIVE SUMMARY

- A. Description:** Amend and create new rate policies and structures that progressively respond to industry changes and challenges.
- B. Context:** A policy analysis in 2017 identified the following rate-related challenges affecting City Light:
 - a) Ongoing decline in retail sales and revenue under-recovery: unit sales (kWh) are declining, contributing to under-collection of revenue and persistent rate pressure.
 - b) Revenue volatility: retail revenue getting riskier and harder to forecast, uncertainty is greater than in the past.
 - c) Rate structure doesn't match cost structure; most of rates is energy charge, while most of cost is not energy.
 - d) Cross subsidies between ratepayers. Low users subsidized by high users. Solar and extreme-low consumers' bills do not cover fixed costs of service.

While rates are set every two years, City Light rate structures have not changed materially in the last 30 years. Revenue recovery and rate reform are issues currently being addressed by utilities across the country.

C. Component(s) of initiative: The primary goals of the initiative are to develop policy and implement rates to address primarily the following two areas:

- a) Rate unbundling: Create new rate schedules that separate energy charges from delivery and other charges. This change would improve bill transparency, and better reflect the different services provided by City Light.
- b) Fixed charges: Determine the ideal balance between per-day, per-kWh, per-kW, etc. charges

In addition, topics for study and implementation may also include:

- c) Distributed generation: what policies should apply to customer-generators? (net metering, value of solar)
 - d) Seasonal or time of use rates: should the utility offer time of use or seasonally changing rates, and to which customer groups?
 - e) Customer classification: Are the current customer classifications ideal given upcoming changes to metering. Should the number of non-residential classes be reduced? Should residential be separated by single/multi family?
 - f) Special rates and charges for premium services and products: Should special rates or charges be applied to customers who receive a higher level of service than typical? For example, outlying network areas (First Hill, UW), undergrounded areas, etc. Also, are there premium services (e.g. community solar, zero carbon) that the utility should offer customers (at a premium rate)?
 - g) Electric vehicle charging rates: What EV charging rates should be offered?
- D. Business Value:** Policy changes could improve customer service by providing more transparent utility bills and potentially offering new services/options. Some rate policies would improve revenue stability, others would focus on cost collection, reducing cost burden for other rate payers.
- E. Opportunity for increased revenues and/or decreased costs:** Changing rates will not increase revenues, but may change how costs are distributed among different ratepayers (who pays for what) and/or improve certainty of revenue collection. For example, establishing special rate classes for premium services would increase rates for those receiving the services, and decrease rates for everyone else.

2019 – 2024 INITIATIVE MILESTONES AND DELIVERABLES

Milestone	Due Date	Deliverables and Comments
Initiative Start	Mid 2018	
Rates proposed for 2109-2020	July 2018	Rate proposal and legislation, with rate design that reflects issues described in this initiative
Scope rate policy study	EOY 2018	Create schedule and workplan with Review Panel to study and discuss rate policy options
	TBD	Study Milestones TBD
Updated Rate Policy Resolution	EOY 2019	Review Panel Letter of Policy Recommendation and Rate Policy Resolution to guide future rates
Enact policies in 2021-2022 rates	6/30/2020	Rate Ordinance setting rates for 2021-2022 that reflect new policies
Initiative Complete	12/31/2020	

SOCIAL EQUITY

Some changes in rate structures may disparately impact under-represented residents due to the historic correlation of economic disadvantage and communities of color. Studies of Seattle customer bills show that electricity consumption is not correlated to income, and that economically disadvantaged residents may be high or low users of electricity. Bill impact analysis will inform all rate policy decisions.

METRICS FOR SUCCESS AND METHOD FOR MEASUREMENT

- a) New rate policy resolution passed by City Council
- b) 2021-2022 rates reflect a revised set of policies

STAKEHOLDER OR CUSTOMER IMPACT

The environmental community is very engaged on rate design. Changes that increase per-kWh prices are encouraged, as this is viewed as incentivizing conservation investments. Conversely, increasing fixed charges is not favored by conservation and solar advocates as this is viewed as reducing the price signal for these investments.