Rates 101

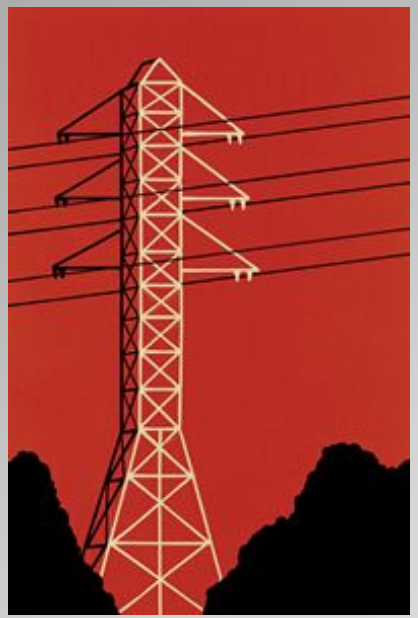
The Basics and Beyond

Paula J. Laschober

Finance Director

Seattle City Light

Seattle City Light Quick Facts



- City Light is a 100-year old municipally-owned electric utility
- City Light serves customers by producing, transmitting and distributing power
- The Superintendent is appointed by the Mayor and confirmed by the Council

- City Light operates with 4 internal business units
  - Power Supply & Environmental Affairs
  - Customer Service & Energy Delivery
  - Financial Services
  - Human Resources

Seattle City Light Quick Facts

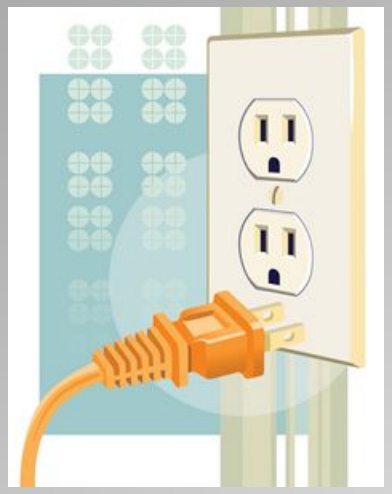
- Service territory is 131.3 square miles
- 348,000 residential and 46,000 commercial meters served in 6 cities and unincorporated King County
- Owns and operates 7 hydroelectric plants with 1,900 MW of capacity
- Maintains 650 miles of high-voltage transmission lines and 3,130 miles of distribution lines
- Operates 14 principal substations
- Approximately 1,700 employees

Seattle City Light Power System

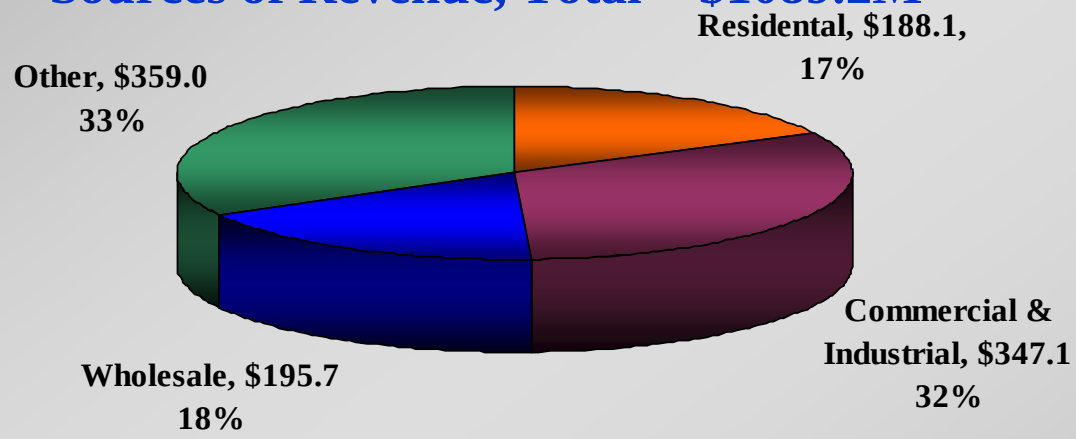
Seattle City Light's Diablo Dam

Seattle City Light's Boundary Dam

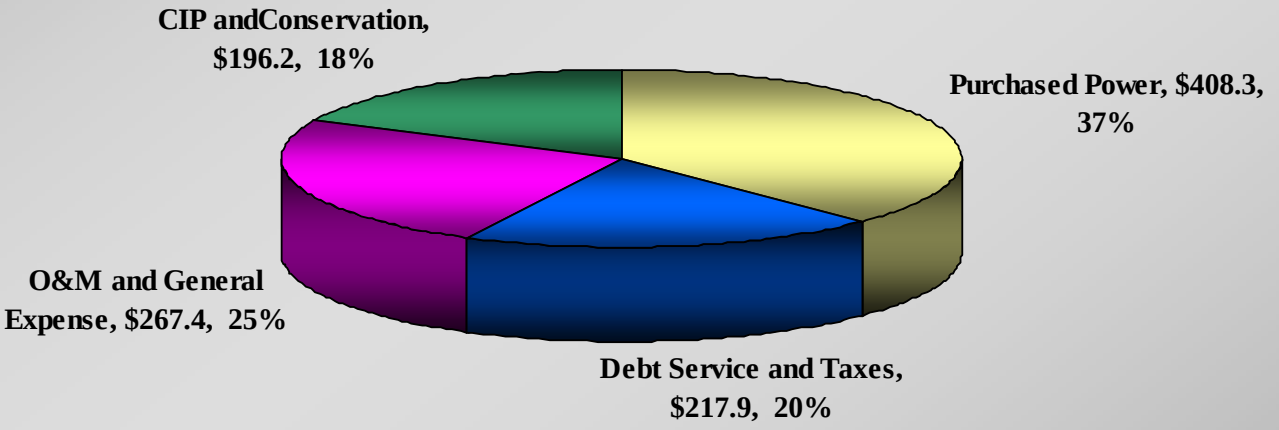
Seattle City Light - 2010 Projections

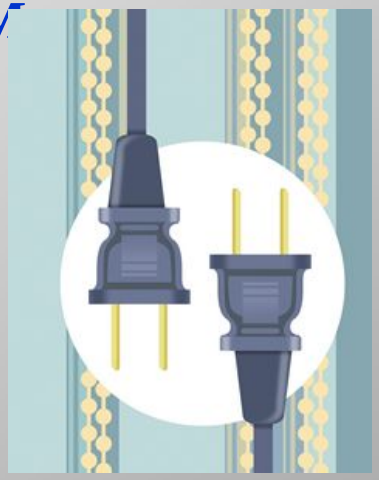


Sources of Revenue, Total = $1089.2M

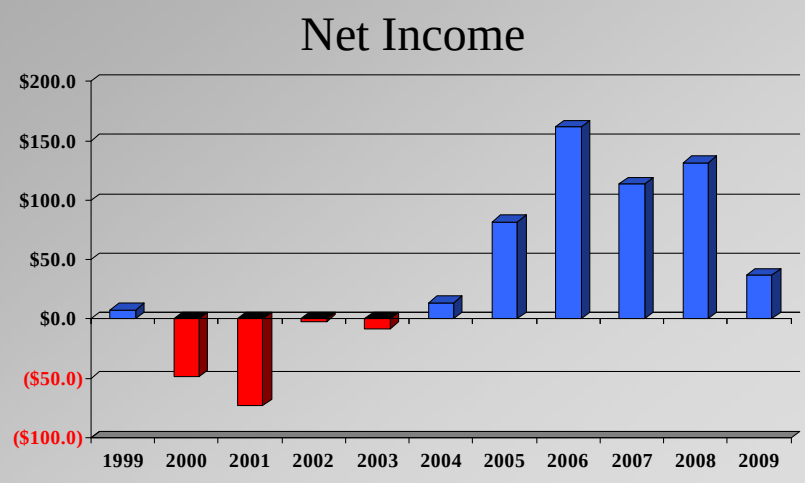


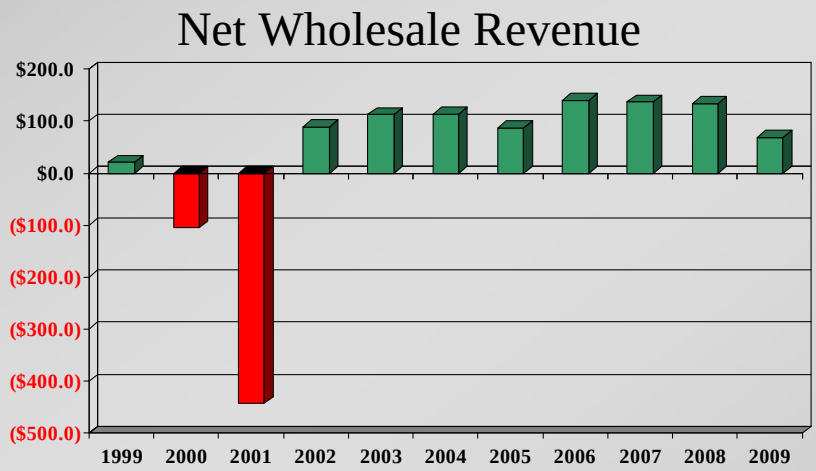
Uses of Revenue (Budget), Total = $1089.2M

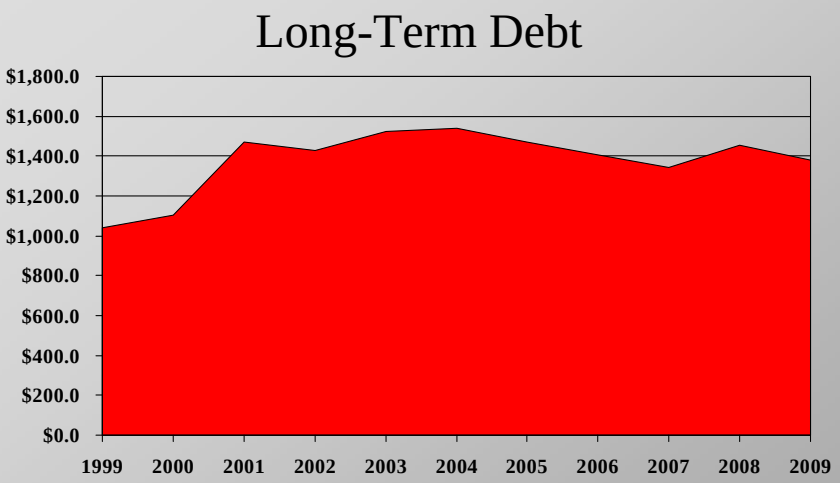




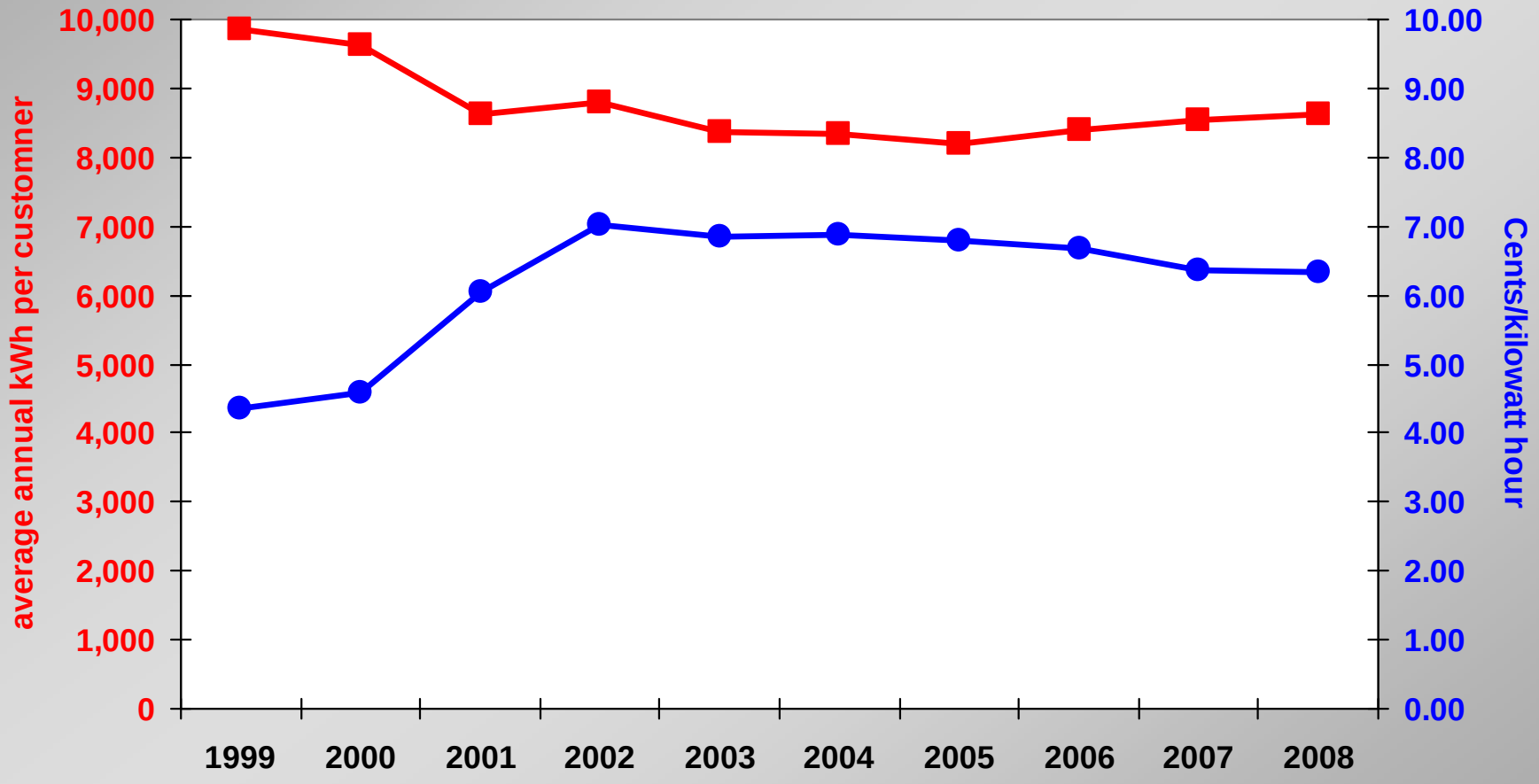
Seattle City Light - Financial Snapshot





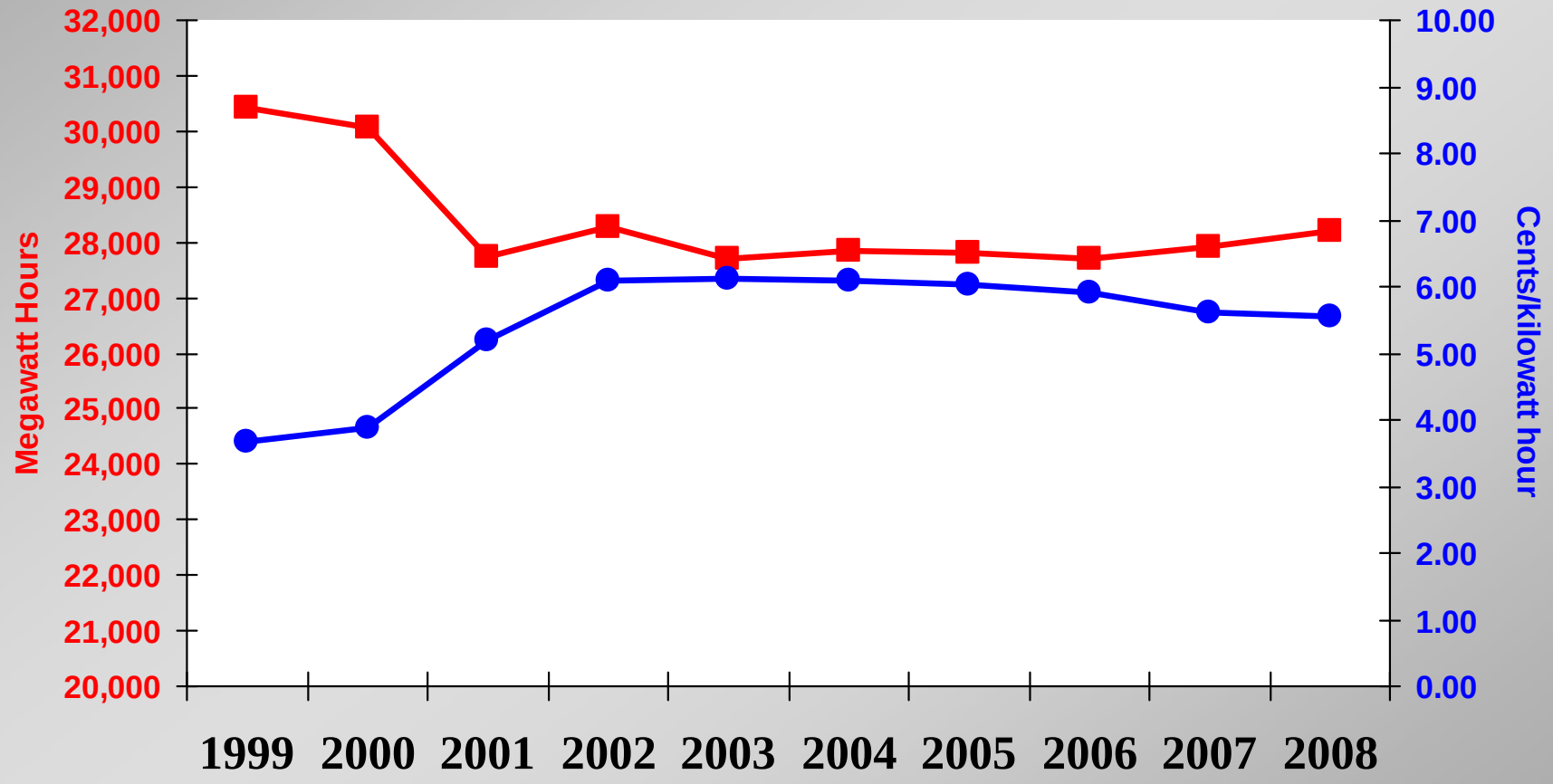


Seattle City Light - Rate Trends



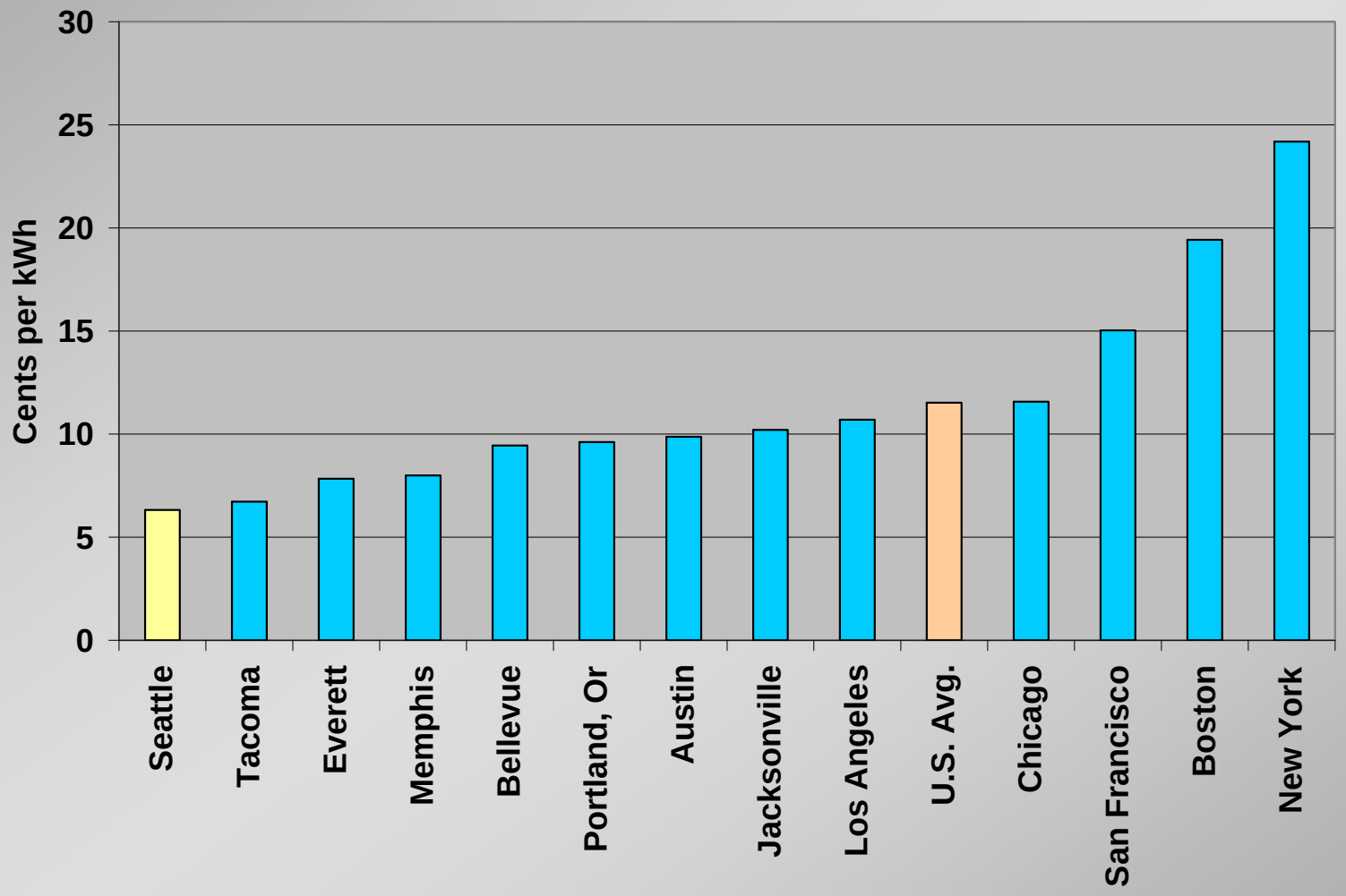
Seattle City Light - Rate Trends

Seattle Average Small General Service Rates



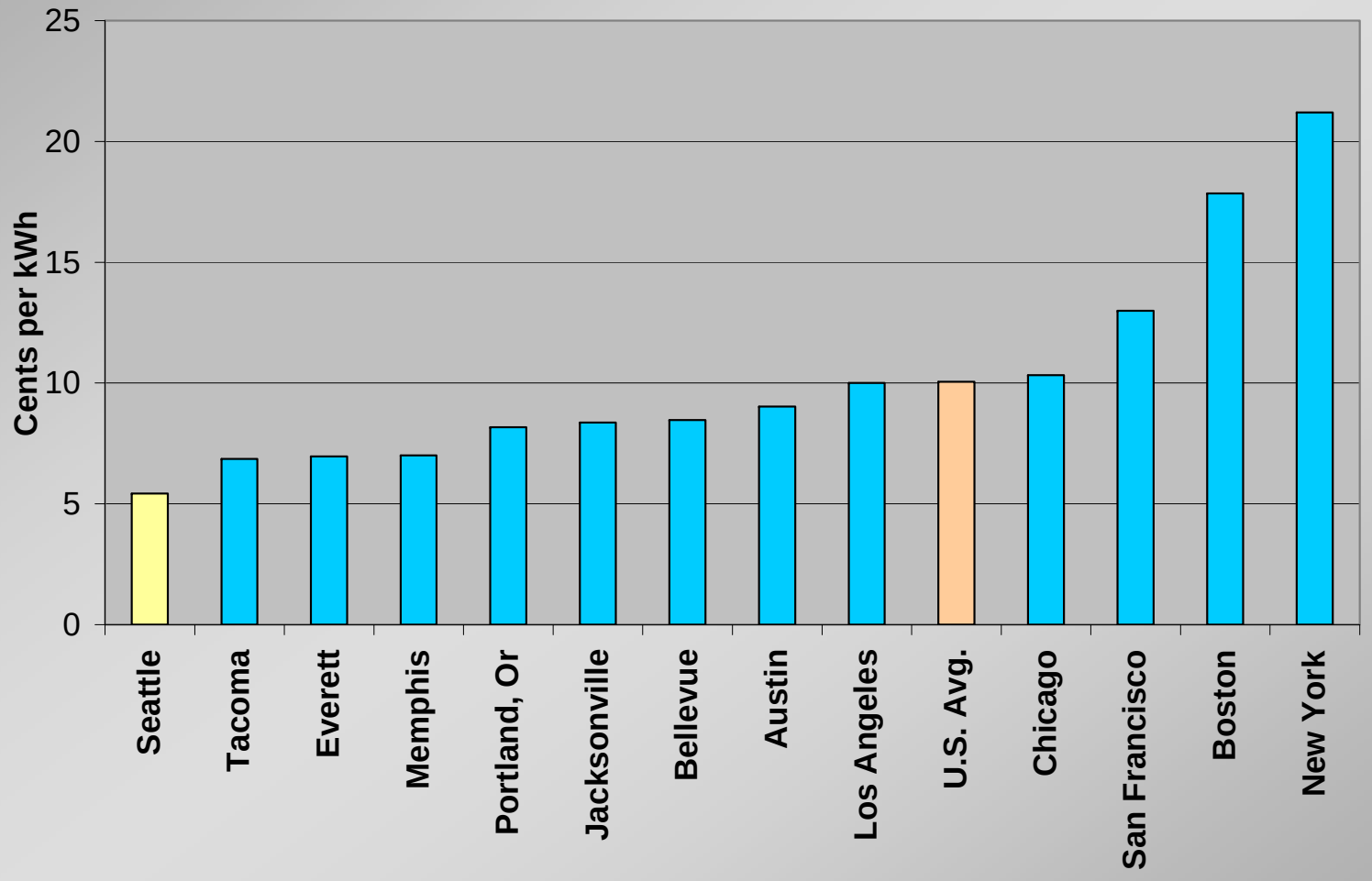
Seattle City Light - Rate Comparison

Comparison of 2008 Average Residential Rates per kWh by City



Seattle City Light - Rate Comparison

Comparison of 2008 Average Commercial Rates per kWh by City



Seattle City Light - Rate Comparison

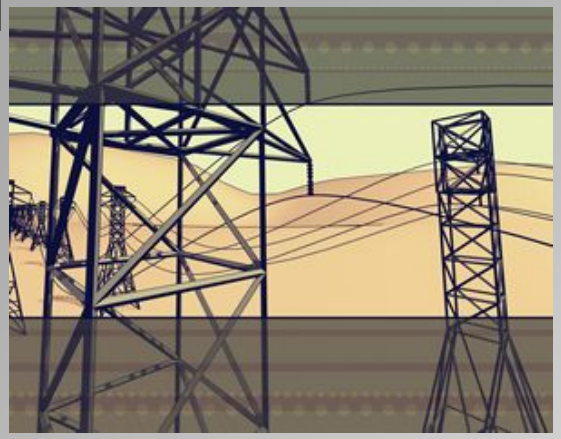
What is happening elsewhere regarding rates

◆ Proposed Rate Increases

- **7.4% Puget Sound Energy**
- **15.1% Pacificorp – WA**
- **11.4% Idaho Power**
- **22.6% Idaho Power – Oregon**
- **3.5% Snohomish PUD**
- **5.6% Portland General Electric**
- **12.5% Florida Power & Light**
- **9.1% Pacificorp - Oregon**

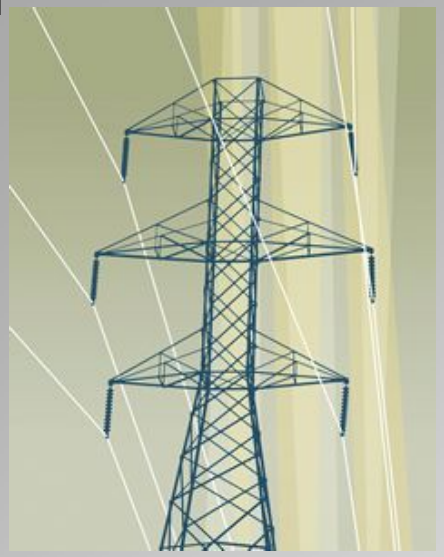
How City Light Rates are Set

- Technically
  - A three part analysis
    - revenue requirements,
    - cost allocation, and
    - rate design
  - identification and analysis of policy issues
- Process
  - Mayor proposes and City Council considers and adopts
  - Public involvement and comment throughout



Seattle City Light Rate Review Process

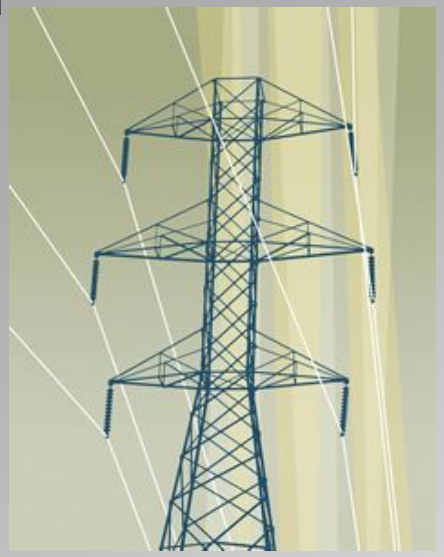
- Setting electrical rates is an art that requires forecasting the future, balancing competing interests, and meeting financial goals.
- The process of setting rates involves both economic analyses as well as public policy decision making.



Seattle City Light Rate Making Objectives

- **Electric utility rates should be sufficient to meet the City Light Department's revenue requirements, while charging the lowest possible cost to the ratepayer over the long run.**

Resolution Number 30685: Adopting long-term rate setting objectives and electric rate policies for the City Light Department, adopted June 21, 2004.



Seattle City Light Rate Making Objectives

- **Rates should be based on the costs of service to the customer. Rates should reflect changes in the costs of service over time.**

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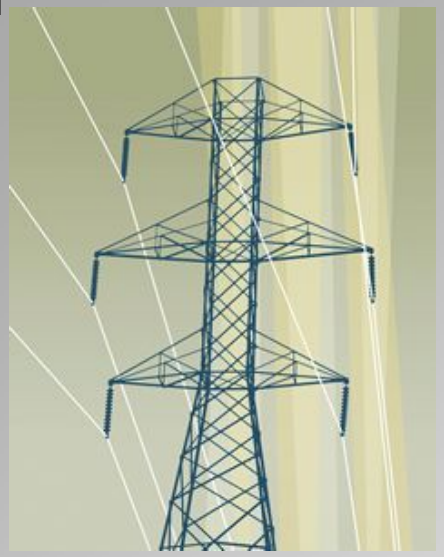

Seattle City Light Rate Making Objectives

- **Rates should reflect a fair apportionment of the different costs of providing service among groups of customers.**

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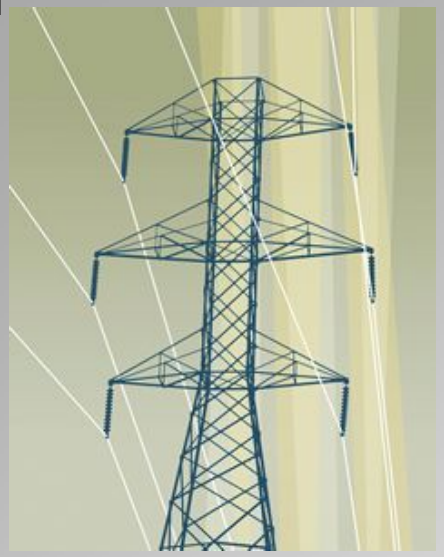

Seattle City Light Rate Making Objectives

- **Rates should provide incentives for cost effective conservation of electricity and the efficient use of electric power resources.**

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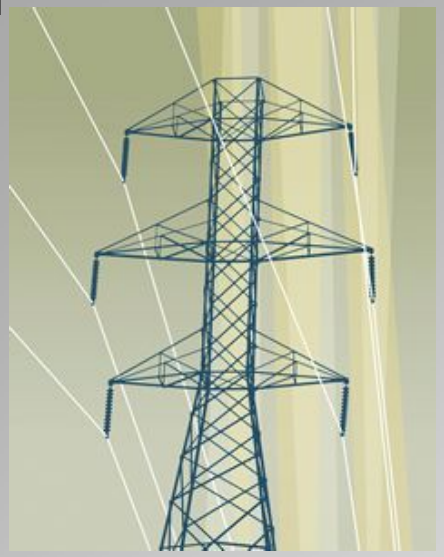

Seattle City Light Rate Making Objectives

- **Rate levels and rate structures should be changed in an orderly manner over time.**

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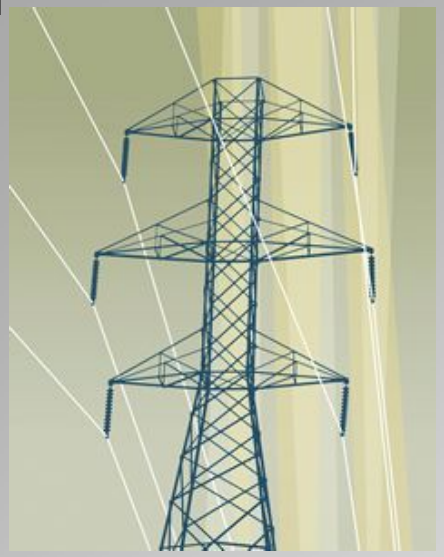

Seattle City Light Rate Making Objectives

- **Revenue recovery from rates should promote financial stability, consistent with financial policies of the City Light Department, as adopted by the Seattle City Council.**

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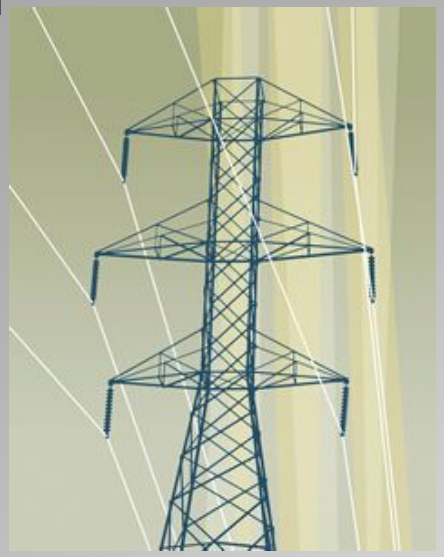


Seattle City Light Rate Making Objectives

- Citizens should be ensured **clear and understandable information** and opportunities for meaningful citizen **participation** in the City's rate decision process.

Resolution Number 30685: Adopting long-term rate setting objectives and electric rate policies for the City Light Department, adopted June 21, 2004.

Seattle City Light
Three Steps to Rate Making

Step 1: Revenue Requirements Analysis

The analysis of the revenues required to meet City Light operating and maintenance expenses, and to finance a portion of the City Light Capital Improvement Program consistent with financial policies.

Seattle City Light
Three Steps to Rate Making

Step 2: Cost of Service and Cost Allocation Report

The analysis of distributing the revenue required by City Light to customer classes so that the revenues recovered from each customer class are based on the cost to serve it.

For Example...

- Jim's Independent Grocery consumes 30,000 kWh per month. To sell this 30,000 kWh, City Light must maintain:
  - One meter
  - One bill
  - One power pole and service connection

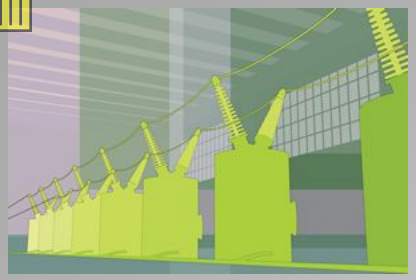
- Jim's home is on a street with 30 other homes, each of which consumes 1000 kWh per month (total consumption is the same) . To sell this 30,000 kWh, City Light must maintain:
  - 30 meters
  - 30 separate bills
  - 10 power poles
  - 30 service connections

- **It costs City Light less per kWh to serve Jim's store**
  - **Rates are set to recover costs, so...**
  - **His store is charged a lower rate than his home**

Seattle City Light
Three Steps to Rate Making

Step 3: Rate Design Report

The process of shaping rates, charges and credits for each customer class so that the customers in each class not only contribute their portion of City Light's revenue requirements but also receive appropriate price signals consistent with City policies, e.g., higher prices for higher consumption and during high-cost periods to encourage conservation.



RAC Mission: 2009 Rate Review

Provide advice to the City Council on the adequacy and appropriateness of City Light's…

- Revenue requirements
- Rate design proposals

Schedule of Important Events

Event	Date
Initial RAC Meeting	Sep 15
RAC meets during week of September 21	TBD
Mayor presents 2010 budget & rates proposal	Sep 25
RAC meets week of September 28	TBD
RAC meets during October	TBD
Conclusion of RAC work on Revenue Requirement	Early Nov.
Council approval of 2010 budget	Late Nov.
New rates effective	Jan 1, 2010
RAC returns after first of year to address Rate Design	TBD
RAC participates in the 2011-12 Rate Adjustment process	TBD