

Seattle City Light's Rates Background

RATE REVIEW PROCESS

Background

City Light is one of two "enterprise" fund departments in City Government. The other department is Seattle Public Utilities which manages solid waste, recycling, wastewater, and water services. An enterprise fund means that we derive our funding primarily from customer rates and other independent sources of revenue. We do not receive City general fund dollars.

In July of 2009, the City Council voted to create a Rates Advisory Committee (RAC) to review City Light's rates. A total of nine members were selected – from among City Light's various rate classes to serve on the committee — five by the Mayor and four by the City Council. Whenever City Light changes rates a public review process must take place. Sometimes it takes the form of a series of public meetings, as in 2006; other times it takes the form of a RAC, with the last RAC meeting in 2003.

Need

Like others in the West, Seattle City Light ratepayers were stung by the 2000-2001 energy crisis which caused rates to jump sharply. But in the eight years since, City Light's customer rates have decreased by more than 12 percent on average. And compared with other local utilities and with customers in other large cities, City Light customers have the lowest rates.

But City Light also has a lot of catching up to do as a result of deferred or delayed infrastructure maintenance and replacement, technology improvements, and tree trimming to minimize outages during storms. At the same time, the utility's transmission infrastructure will require upgrading as legally mandated renewable energy sources come online. Similar upgrades are needed for the utility's power distribution system, in order to use smart grid technology that will pinpoint outages in order to restore power to customers much more rapidly.

One only has to remember the devastating windstorm of December 2006 to be reminded of how vulnerable our power system is. That windstorm knocked out

power to more than half of City Light's customers. While City Light crews worked to restore power as quickly as possible, we could have done a better job of restoration, as well as communicating with our customers, if we had had better tools that now are available to utilities.

We fall behind other utilities in areas such as outage management, asset management, and improved customer communications. A comprehensive review of our response to the 2006 storm resulted in a plan of action that addresses these shortcomings and more. We already have begun much of the work needed to improve our system. But, just as your home is a major investment for you, if you have delayed or deferred maintenance and improvements too long, you could end up with very costly repairs, as well as a need to fix many other problems that have resulted from lack of attention. City Light is now trying to catch up with its system maintenance.

Some of the equipment being used today to deliver electricity was installed in the 1930s. In many cases, equipment has lived beyond its useful life. We've been living on borrowed time and these deferrals are beginning to show. We can't afford to continue to run to failure with our energy delivery system. We risk outages that disrupt our customers' lives and business operations. Critical improvements must be made now to ensure reliability.

Plan of Action

1. City Light has taken a hard look at its ongoing operating expenses for 2010 and reduced them by about \$24 million. These reductions have included the elimination of some positions, operational efficiencies that we think we can achieve, and temporary reductions in some services that we think will not significantly impair our ability to meet our customers' needs and expectations.
2. At the same time, we have added about \$10 million of net operating expenses for programs and services that we consider to be absolutely essential to getting the most benefit from our energy resources

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and maintaining the system that provides reliable electricity to our customers now and for the future.

3. We also have identified about \$5 million in potential new revenue sources, some of which were suggested by employees. These include sale of surplus properties and pursuing revenue collection from those who illegally circumvent our metering.
4. We have taken a similar hard look at our projected capital expenditures and pared them back. It should be noted, however, that we plan to fund these expenditures through bond sales, so they have a limited effect on rates since the cost is spread over 20-25 years.
5. City Light is proposing a three-year plan that would spread low rate increases over 2010, 2011 and 2012.
6. City Light's two main sources of revenue are retail customer rates and sales of surplus energy on the West Coast wholesale energy market. Expected sales of surplus energy are used to offset projected rate increases. However, since these sales are extremely volatile, as they were in 2008 and 2009, City Light finds itself forced to make serious service reductions to make ends meet. In order to keep the utility on a more predictable path, the utility is proposing a quarterly automatic wholesale revenue adjustment that would temporarily increase customer rates when wholesale revenue falls below the budgeted forecast and temporarily reduce them when such revenue exceeds that forecast.

Public Engagement

All Rate Advisory Committee meetings are open to the public. City Light will maintain a Web site for the current rate-review process and will ensure that the committee meeting schedule is broadly distributed to customers.

Seattle City Light remains dedicated to providing low-cost, reliable and environmentally responsible power and the best customer service experience of any utility in the nation. With this goal in mind, the RAC will carry out an exhaustive and comprehensive review of City Light's revenue requirement. This will include a look at capital and operating expenses, analysis of the components of the gap between revenue that current rates would provide and revenue needed, and recommendations about what service levels and programs City Light should be providing to its customers.

For more information, please go to:
www.seattle.gov/light/news/Issues/RateProc/