

Setting City Light Rates

Introductory Public Workshop

February 15, 2005



Seattle City Light

How City Light Rates are Set

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



Public Workshops

- Four Workshops
 - Overview
 - Financial Policies and Revenue Requirements
 - Cost of Service and Cost Allocation
 - Rate Design
- Overview
 - Rate setting 101
 - Learn what issues you're concerned with to help us prepare for next workshops



2006 Revenue Requirements

	(million \$)
Purchased Power	287
Operating Exp & Tax	211
Debt Service	137
Misc Revenue	(32)
Whlsl Rev less Variability Allowance*	(28)
Revenue Requirement	575

*Avg wholesale revenue is \$133 million.

Variability allowance is \$105 million.

Variability Allowance

- Net Wholesale Revenue varies because of
 - hydrological conditions
 - market prices
 - retail load
 - (higher retail sales mean lower wholesale sales)
- Retail Revenue varies because of
 - temperature (heating and cooling loads)
 - economic conditions



Capital Financing

(million \$)					
Capital Spending		179			
<i>CIP</i>		143			
<i>Conservation</i>		21			
<i>High Ross & Other</i>		15			
Capital Financing					
x% Exceedence*	Installation Charges & Reimbursements		Current Net Revenue	Debt	% Debt Financing
95%	32	-	147	82%	
75%	32	53	94	53%	
50%	32	105	42	23%	
25%	32	136	11	6%	
5%	32	207	(60) *	0%	
* Cash flow is better than this x% of the time					
* Negative borrowing represents retirement of debt or build-up of operating cash balances.					

Possible Revenue Requirements

Issues

- Financial Policies
 - variability allowance
 - bond reserve or insurance product (surety bond)
 - size of Contingency Reserve
 - target for debt/capitalization ratio
- Increased charges for new loads
- Assumptions underlying wholesale revenue distribution



Cost Allocation

- Unbundle Revenue Requirements
- Distribute parts to customer classes
 - directly if expenditures only for one class
 - based on marginal cost (MC) shares
 - differentials
 - network differential
 - suburban differential
 - gradualism



Unbundled Revenue Requirements

	(million \$)
Energy	323
Distribution	192
Customer Costs	52
Low-Income Assistance	9
Total Revenue Requirements	575

Derive Marginal Cost Shares

- What is the cost of providing one more unit of service?
- Value all units of service at this marginal cost and add up for each customer class and in total
- What is the share of total marginal costs used by each class (the marginal cost share)?
- Allocate Revenue Requirement to customer class by marginal cost share.



Marginal Cost Shares

(million \$)	Residential	General Service	Streetlight	Total
Energy	215	421	6	642
Distribution	20	36	4	60
Customer	23	4	0	27
Total	258	461	10	729
(MC share)				
Energy	33%	66%	1%	100%
Distribution	33%	60%	7%	100%
Customer	85%	15%	0%	100%
Total	35%	63%	1%	100%

Allocation Using MC Shares

(million \$)	Total	Res	GS	Lights
Energy	323	108	212	3
Distribution	192	64	115	13
Customer	52	44	8	0
Low-Income	9	3	6	0
Total	575	219	340	16
million MWh	9.3	3.1	6.1	0.1
\$/MWh	\$ 62	\$ 70	\$ 56	\$ 168

Possible Cost Allocation Issues

- MC Share allocation methodology
- Network rates
- Suburban rates
- Low-income rates
- Gradualism



Rate Design

- Residential
 - Basic Charge
 - First, Second, Third block energy charges
- General Service
 - Demand charge (per kw)
 - Energy charge
 - by peak and off-peak periods for large and high demand classes
 - Power Factor charge
- Streetlights
 - flat charge per month by type of light



Possible Rate Design Issues

- Residential rate blocks
- Residential basic charge
- GS demand charge
- GS Power factor charge
- GS Rate Options
 - Interruptible rate
 - market indexed rate



Your take on the issues

- Which of the issues mentioned are most important to you?
- What important issues have we missed?

