Seattle City Light

Rates Advisory Committee

Report to

The Utilities & Environmental Management Committee

Of the Seattle City Council

September 24, 1999

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Process

Seattle City Light's (SCL's) 1999 Citizens' Rates Advisory Committee (RAC) began meeting on May 11, 1999, and has met almost every Wednesday afternoon since then for a total of 18 meetings through September 22. SCL staff provided committee members with written and oral presentations regarding issues being considered by staff, the City Council and the Mayor. RAC members organized those issues into high, medium and low priorities (see Appendix A). RAC members then discussed cost allocation issues as a full committee, and split into two subcommittees to address high priority issues within the categories (1) revenue requirements and financial policies, and (2) rate design. RAC initial recommendations were transmitted to the Executive on August 20, 1999, and are included herein for your reference. Some members have come forward since August 20th to change their prior vote or add their vote to issues discussed in their absence. The attached includes the most current tally of positions held by RAC members.

RAC members agreed to strive for consensus where possible on recommendations the group puts forth to the Mayor and the City Council. If RAC members were unable to reach agreement on an issue, pros and cons are provided for the policy options identified, with the names of RAC members who supported each position listed. It should be noted that "consensus" was defined by the RAC as the absence of opposing votes.

Response to the Mayor's Rate Proposal

Seattle City Light staff presented more than 30 issues to the RAC for consideration (see Appendix A). Unfortunately, despite the RAC's best intentions and significant effort, we were not able to explore all those issues sufficiently to allow us to make recommendations on every one. We have instead focused on the 12 key issues previously discussed in our recommendations to the Executive. The Executive's rate proposal transmitted to your Council on September 7, 1999, resolves all thirty issues either explicitly or implicitly. This response focuses on the issues addressed by the RAC and makes no statement regarding the appropriateness of the Executive's resolution of issues not considered.

The Executive's proposal differs from the RAC's recommendations in a number of areas. The RAC is particularly concerned, however, about differences in two key areas: the implementation of the network surcharge and the transfer of Seattle streetlight costs to Seattle ratepayers. In this section, we will describe in detail how the RAC's recommendations in these two key areas differ from the Executive's proposal and address two issues in the areas of Revenue Requirements and Rate Design not previously addressed by the RAC.

Implementation of the Network Surcharge

The imposition of a network surcharge is one of the few issues supported by a consensus of RAC members. The RAC feels that cost analysis demonstrating the increased expense of providing network service is clear and persuasive, and that the benefits of that service, i.e., high reliability and quality of power service, support charging customers served by the downtown network a premium for this service. The method of implementing that surcharge is where the RAC disagrees with the Executive's proposal. That disagreement is further differentiated by rate class, that is Residential and Small General Service (SGS) classes versus Medium and Large General Service (MGS & LGS) customers.

Allocation Method

Currently, the costs of providing network service are spread to all SCL ratepayers. The RAC proposal would end this general subsidization immediately by allocating all network costs to the specific rate classes, i.e., the cost of providing network service to Residential customers would be allocated only to the Residential rate class, etc. The Executive's proposal maintains vestiges of the current allocation system that may result, for example, in Residential ratepayers subsidizing the expense of providing network service to SGS customers. The difference between these two allocation methods diminishes by the end of the rate period as MGS and LGS network customers begin to pay 100% of their costs. This initial adjustment to the allocation method is the key driver for rate increases to LGS customers and decreases to other customer classes in 2000 (see Table 1).

The RAC feels that it is important to address the cross-class rate subsidization from the beginning and then address the intra-class subsidization over time.

Medium and Large General Service Customers

The Executive proposes to allocate to these classes 100% of the costs of providing network service in the downtown network area. The majority of the RAC supports a recommendation to allocate 50% of those costs to these customers over the 2000 to 2002 rate period. A proposal to move to 100% during the next rate cycle may be considered by a future RAC. The RAC recommends that this significant change of policy be implemented gradually in order to soften its impact on businesses and government offices in the downtown core. The RAC is concerned that an aggressive implementation of this surcharge ignores the policy discussions that have resulted in no recommended surcharge for the University and Capitol Hill network areas and the desirability of continued economic vitality and density in the downtown area.

Further, if the cross-class subsidization is addressed as previously discussed, phasing this surcharge has **no** impact on Residential and SGS customers. The 50% of network costs not allocated to MGS & LGS customers on the network would be distributed to all customers within the MGS & LGS rate classes. This implementation recommendation does not increase the rates paid by non-network MGS & LGS customers. It simply moderates the initial benefit to non-network customers and the impact on network customers of this policy change (see Table 1).

Residential and Small General Service Customers

The Executive's proposal does not include any surcharge on the rates of Residential or SGS customers served by the downtown network. Seattle City Light staff argues that these customer classes were not the basis for the installation of the downtown network. This rationale ignores the superior service received by these customers, including an underground distribution system and more reliable and stable power supply. The RAC believes that it is inequitable for non-network Residential and SGS customers to bear the entire cost of providing this service.

Staff also argues that these network customers did not choose to receive network service. First, this position is not consistent with other policy recommendations included in the Executive's proposal. Suburban customers certainly have not chosen to be subject to a surcharge and do not receive better service than other customers do. Second, individuals and businesses moving to the downtown area may consider the availability of superior electric service. The RAC is recommending that network Residential and SGS customers pay a surcharge designed to recover just 25% of the network costs allocated to these rate classes. The RAC does not believe that it is unreasonable to ask network Residential customers to pay an extra $24 per year[1] and network SGS customers to pay an extra $85 per year for almost certainty that their power will not go out in a storm.

[1] Calculation is based upon the average network customer as compared to a non-network customer at the same consumption level for the 2002 rate year.

Table 1 - Comparison of RAC and Mayor's Proposals

Percentage Rate Change from Previous Year

	Residential			SGS			MGS			LGS			HDGS	Lights	
	Suburb	City	Net	Suburb	City	Net	Suburb	City	Net	Suburb	City	Net		GF	Other
RAC Proposal (no streetlights, full network allocation to classes but subclasses phase-in 50% MGS & LGS, 25% Res & SGS)															
2000	**4.6%**	**0.7%**	**4.1%**	**7.4%**	**2.6%**	**4.1%**	**6.2%**	**1.6%**	**6.5%**	**14.5%**	**9.4%**	**13.1%**	**-3.3%**	**5.0%**	**5.0%**
2001	**4.9%**	**5.0%**	**8.4%**	**4.5%**	**4.6%**	**6.1%**	**-0.8%**	**-1.0%**	**3.9%**	**1.6%**	**1.6%**	**5.6%**	**0.9%**	**5.0%**	**5.0%**
2002	**4.9%**	**5.0%**	**8.3%**	**1.9%**	**1.8%**	**3.3%**	**0.8%**	**0.6%**	**5.4%**	**0.7%**	**0.6%**	**4.4%**	**2.3%**	**5.0%**	**5.0%**
2002 vs current rts	**15.2%**	**11.0%**	**22.1%**	**14.4%**	**9.2%**	**14.0%**	**6.2%**	**1.3%**	**16.6%**	**17.2%**	**11.8%**	**24.7%**	**-0.2%**	**15.8%**	**15.8%**
Mayor's Proposal adjusted to reflect RAC's Network Proposal															
2000	**4.6%**	**2.3%**	**5.7%**	**7.4%**	**4.5%**	**6.0%**	**6.2%**	**3.4%**	**8.3%**	**14.5%**	**11.4%**	**15.1%**	**-1.2%**	**-100%**	**5.0%**
2001	**4.9%**	**5.0%**	**8.4%**	**4.5%**	**4.6%**	**6.1%**	**-0.8%**	**-0.9%**	**4.0%**	**1.6%**	**1.6%**	**5.6%**	**1.1%**	**0%**	**5.0%**
2002	**4.9%**	**5.0%**	**8.2%**	**1.9%**	**1.9%**	**3.3%**	**0.8%**	**0.7%**	**5.4%**	**0.7%**	**0.7%**	**4.5%**	**2.4%**	**0%**	**5.0%**
2002 vs current rts	**15.2%**	**12.8%**	**23.9%**	**14.4%**	**11.4%**	**16.1%**	**6.2%**	**3.3%**	**18.6%**	**17.2%**	**14.0%**	**26.9%**	**2.2%**	**-100%**	**15.8%**
Mayor's Proposal (Phase-in to 100% Network, 8% Suburban Power Differential, Immediate Streetlight Transfer)															
2000	**6.6%**	**4.3%**	**4.3%**	**8.4%**	**5.5%**	**5.5%**	**3.4%**	**0.7%**	**10.5%**	**7.9%**	**4.8%**	**13.3%**	**1.0%**	**-100%**	**5.0%**
2001	**4.0%**	**4.1%**	**4.1%**	**4.3%**	**4.4%**	**4.4%**	**-0.9%**	**-1.0%**	**8.2%**	**2.5%**	**2.5%**	**9.4%**	**0.0%**	**0%**	**5.0%**
2002	**4.0%**	**4.1%**	**4.1%**	**1.7%**	**1.7%**	**1.7%**	**0.7%**	**0.6%**	**9.2%**	**1.2%**	**1.2%**	**8.3%**	**1.3%**	**0%**	**5.0%**
2002 vs current rts	**15.4%**	**12.9%**	**12.9%**	**15.0%**	**12.0%**	**12.0%**	**3.2%**	**0.3%**	**30.5%**	**12.0%**	**8.8%**	**34.2%**	**2.2%**	**-100%**	**15.8%**

Seattle Streetlights

The RAC has two main points to make in response to the Executive's proposal to transfer responsibility for streetlighting costs from the City's General Fund to City Light ratepayers. First, the majority of the RAC opposes this transfer as an inappropriate shift of a General Fund obligation to ratepayers as discussed in more detail below. Second, this transfer combined with the proposed price for acquisition of City-owned street lights by City Light requires ratepayers to pay for these lights twice, increasing the initial burden of this proposal to **$9.3 million**.

Arguments made by RAC members in opposition to this proposal include:

- **Conflict of Interest** – The City Council has a dual responsibility to manage the affairs of the City on behalf of taxpayers and to manage City Light for the benefit of ratepayers. This proposal is against the interests of ratepayers and for the benefit of taxpayers. These groups are not the same either in actual population or in the actual financial impact of the two options being discussed for paying for streetlight services (i.e., General Fund or SCL).
- **Precedent for Future Policy** – While City Light may have historically supported general City interests through joint land use, contributions to the arts, or other similar programs, none of these programs have significantly affected the operations of the utility or the rates it must charge. This proposal does both and may open the door for future significant shifts in responsibility from the General Fund to City Light ratepayers. The concern is that the measuring post for City Light rates will become the rates of other utilities in the region and that potential benefits of past and current City Light investments and decisions paid for by ratepayers (the High Ross contract for example) will be lost in order to benefit the General Fund.
- **Distribution of the Burden** – Simply stated, "taxpayers are not the same as ratepayers." General Fund resources are diverse, reaching shoppers, visitors and the like from outside the City and property owners inside the City. Some RAC members question whether high users of energy benefit as much from streetlighting as shoppers and high value property owners. There is also concern that this rate increase will be regressive, having a disproportionate impact on low to moderate income Residential customers who utilize electricity for space and water heating and cooking.
- **Hidden Tax Increase** – Some Committee members expressed concern that this proposal was simply a means of circumventing the public debate and accountability that should accompany the imposition of new or increased taxes. They believe that hiding an increase in General Fund revenue or support for general government functions in the SCL rate is poor public policy and is further evidence of the conflict of interest inherent in this proposal.

The transfer of streetlight ownership would not negatively affect ratepayers in the absence of this proposal. City Light would pay the General Fund $3.6 million to acquire the City-owned lighting assets, and that expense would be repaid over time through higher rates charged over time to the General Fund for streetlighting services. The Executive's proposal does not provide for this repayment. Some

Committee members believe that the combination of these two actions (the SCL purchase of City assets and transfer of streetlighting costs to SCL) represents the exploitation of the utility and the ratepayers for the benefit of the General Fund. At a minimum it should be clear that the initial impact of the Executive's proposal is a $9.3 million not a $5.7 million cost to ratepayers.

Additional Recommendations

Since issuing recommendations to the Mayor's Office on August 20, 1999, the RAC has deliberated on two issues not previously considered in detail. The first is a collection of revenue requirement issues identified as medium priority[2] (see Appendix A). The second is the rate design for the Residential rate class, that is the customer charge, the block sizes and rates, and other variables. SCL staff did not previously present this latter issue to the RAC. The state of the RAC's deliberations on these issues at the time this report was written is discussed below.

Additional Revenue Requirements Issues

The RAC grouped a number of issues in this category together for discussion purposes based on one overriding policy issue that resides at the center of them all; that is "should SCL ratepayers be obliged to bear the cost of General Purpose programs?" This discussion included the following issues:

Short Title	Short Description
Support of Neighborhood Plans	How much should Seattle City Light spend to support neighborhood plans?
Undergrounding Policy	Should current SCL underground efforts be expanded in support of Seattle neighborhood plans?
Surplus Property Sales	Will surplus properties within Seattle be sold at market rates or transferred to other departments or otherwise utilized at less than market value reducing expected contribution to utility revenues?
Sound Transit	How much SCL work will be required for the regional transit system?
Endangered Species Act	How much should SCL plan to contribute to the City's Early Action Plan response to ESA listing of Chinook salmon?

The RAC recognizes that each of these issues has unique characteristics that may influence the appropriateness of SCL expenditures or revenue reductions in relation thereto. The RAC has not had an opportunity to weigh these unique characteristics in detail. The RAC does, however, recognize that each contains an element of transferring the costs of General Purpose programs from General Purpose

[2] Issues related to the Acquisition of Renewable Resources and Conservation Levels are expected to be addressed through alternative future public processes and were not discussed by the RAC.

revenue sources to the utility ratepayers. The RAC is also aware that proposals in addition to the current Executive proposal may have similar effects including:

Short Title	**Short Description**
Expansion of 1% for Art Program	Should SCL capital projects outside the City be required to contribute to this program?
Key Tower Purchase	Should SCL be required to purchase a portion of Key Tower at market rates at the end of its current lease?

While the RAC recognizes that SCL is a public agency and that even private companies appropriately contribute to the communities in which they reside, the RAC is concerned that some of these proposals individually and certainly the collection taken together may represent an inappropriate expenditure of utility revenues. The concerns expressed in regards to the Streetlighting issue were repeated in regards to these issues.

Recommendation

The RAC recommends that the Council examine the Executive's proposal closely to determine whether proposed General Purpose expenditures are appropriate. Some criteria proposed by RAC members for consideration during this examination include:

- Would the program benefit all ratepayers contributing to the expenditure?
- Would all ratepayers support the expenditure?
- Would transfer of the obligation to the utility reduce Council oversight of spending?
- Would the expenditure or transaction be the type that an independent private utility might undertake?
- Is the program or expenditure of a nature normally supported by General Fund, Local Improvement District, or other revenue sources apart from utility operations?
- Is the program or expenditure closely related to SCL's mission of providing electrical energy?

The RAC urges Council vigilance in protecting the ratepayers from the burdens of programs not designed to serve general ratepayer interests and recommends a critical review of the Executive's proposal to identify and discard such programs.

Residential Rate Design

The RAC reviewed current policies guiding the development of Residential rates, including the current flat customer charge, the size and rate for the initial rate block, and the end block rate. As the table below indicates, the implementation of current policies in these areas will lead to an increasingly large differential impact between low and high energy users over the three year rate period.

Seattle Ratepayers

Level Of Consumption	Percent Of Customers	Current Bill	2002 Bill	Percent Change
1 to 4,680 kWh	22.09	$125	$120	-4%
4681 to 6,500 kWh	15.29	$225	$230	2%
6,501 to 8,500 kWh	17.16	$310	$333	7%
8,501 to 10,000 kWh	10.44	$391	$434	11%
10,001 to 12,000 kWh	10.46	$476	$539	13%
12,001 to 15,000kWh	10.18	$593	$683	15%
15,001 to 18,000 kWh	5.76	$741	$867	17%
18,001 to 25,000 kWh	5.94	$953	$1,127	18%
25,001 to 32,000 kWh	1.66	$1,304	$1,563	20%
over 32,000 kWh	0.84	$1,895	$2,290	21%

Some RAC members expressed concern regarding the variability of the end block rate that is set based upon market conditions including estimated costs for external effects of energy generation. This end block rate has increased significantly since the last rate period. The initial block rate is affected by the amount of the end block rate and the customer charge. Increases in the end block rate, past and projected future, have reduced and will continue to reduce the initial block rate. As a result, while costs to provide electricity are projected to increase over the next rate period, rates for 54.54% of Residential customers inside Seattle are projected to either decrease or increase at or below the rate of inflation. This growing distortion raised concerns among some RAC members including:

- That rates may no longer reflect SCL's actual cost of providing energy,
- That customers who rely on electricity for water or space heating may bear a disproportionate impact of proposed rate increases, and
- That high variability in marginal cost for energy and externalities projections may continue to drive future rate instability.

Other members expressed concern that benefits of past and incentives for future conservation efforts not be lost.

Recommendation

Council should reconsider the residential rate structure and design policies seeking to develop alternative means to satisfy the following objectives:

- Reduce the variability in rate structure,
- Ensure that all ratepayers equitably share the cost of providing electrical service, and
- Target price signals to support conservation.

Recommendations to the Mayor on High Priority Issues

This section contains the RAC's recommendations regarding issues identified as high priority (see Appendix A) transmitted to the Executive on August 20, 1999. Committee members intended to address medium and low priority issues, but only had the opportunity to explore the few additional issues discussed in the previous section.

Revenue Requirements

Amortization of High Ross Contract

Background:

- In 1984, SCL signed an 80-year agreement whereby BC Hydro will supply SCL with 35 aMW of energy and up to 298 MW of capacity annually through 2065 in exchange for SCL not raising the height of Ross Dam.
- SCL pays BC Hydro the amount it would have cost SCL to raise the Ross Dam 120 feet, i.e., $21.8 million through 2020 plus $100,000 in constant 1984 dollars through 2065, plus some payments for an environmental endowment through 2065.

Potential Options:

- Maintain the status quo, i.e., continue to expense the full amount of the High Ross payment to BC Hydro and recover those costs through rates.
- Amortize the virtual debt service portion of the payment to BC Hydro over a period extending beyond 2020.

RAC Proposals/Vote:

- Maintain the status quo. (9/19: W. Anderson, Foster, Webb, Bentler, Dixon, Francis, Conlin, Okeson, Rader)
- Amortize the virtual debt service portion of the payment to BC Hydro to 2035. (10/19: J. Anderson, Bauer, Case, Chen, Jacoby, Warner, Wolfer, Wolverton, Gering, Kauffman)
- If the amortization is extended, it should be extended only to 2035. (consensus)

Reasons to Support the Status Quo:

- Avoid additional debt needed to amortize the payment to BC Hydro.
- Avoid locking SCL into a situation whereby the short-term savings accrued from amortizing the virtual debt service portion of the payment to BC Hydro lead to an increase in future long-term rates.

- Provide for improvement in competitive position once costs are fully paid.

Reasons to Support an Extended Amortization Schedule:

- Amortizing the virtual debt service portion of the payment to BC Hydro could have a significant impact lowering near term rates.
- More closely matches payments with benefits.

CIP Management and Reliance on Debt

Background:

- SCL has substantially increased its use of debt in the 1990s as a result of increasing capital expenditures, changes in capitalization policies, changes in the coverage guideline for rate-setting, lower interest rates and the use of second-lien debt.
- From 1991-1998, capital expenditures more than doubled the level of the 1986-90 period due to replacement of capital plant, major one-time capital projects, and changes in accounting practices regarding capitalization.

RAC Proposal/Vote:

- The Executive Team of Seattle City Light should evaluate the capital improvement program to ensure that the utility avoids obsolescence, maintains efficient operations, and supplies electricity in a manner that minimizes rate increases. (consensus[3])

[3] Mr. Webb expressed opposition after the RAC had concluded discussion of this issue.

Financial Policies

Additional Variable-Rate Debt

Background:

- In 1990, SCL began to issue variable-rate debt on a second-lien basis.
- The amount of variable-rate debt that can be outstanding at any time is currently limited to 15% of SCL's first-lien (fixed-rate) debt.
- Currently, $109.8 million in variable-rate debt is outstanding.

Potential Options:

- Maintain the current 15% limit on the amount of variable-rate debt that can be outstanding.
- Increase the limit on the amount of variable-rate debt that can be outstanding from 15% to 20%.

RAC Proposal/Vote:

- Raise the limit on variable-rate debt from 15 percent to 20 percent. (16/18: J. Anderson, W. Anderson, Bauer, Bentler, Case, Conlin, Chen, Foster, Francis, Jacoby, Kauffman, Okeson, Rader, Warner, Wolfer, Wolverton; 1 abstain: Dixon, 1 opposed; Webb)

Coverage of Variable-Rate Debt

Background:

- The current coverage requirement for fixed-rate debt is 1.80, which applies only to debt service on first-lien debt.

Potential Options:

- Maintain the 1.80 coverage requirement and continue to exclude variable-rate debt service from the coverage requirement.
- Include variable-rate debt service in the coverage requirement and lower the coverage requirement.

RAC Proposal/Vote:

- Keep the current 1.80 coverage requirement and continue to exclude variable-rate debt service from the coverage requirement. (14/18: J. Anderson, Bauer, Case, Chen, Francis, Foster, Jacoby, Kauffman, Okeson, Rader, Warner, Wolfer, Wolverton, Webb; 2 abstain: Bentler, Dixon; 2 opposed: W. Anderson, Conlin)

Rate Design

Seasonal Rates

Background:

- SCL has differentiated rates based on seasons since 1974 for nonresidential customers and since 1977 for residential customers.
- During the Spring runoff months, electricity costs are low due to an abundance of water and a decrease in demand. During the rest of the year, supply is restricted and demand is higher (for air conditioning in July and August, and for heating in September through February).
- General Service customers tend to have flatter load shapes than residential customers. With seasonal rates sending them a clear price signal, General Service customers may choose to conserve in higher cost months by, for example, closing facilities in the winter for repair and maintenance. Residential customers (with the exclusion of low-income customers) also can react to a seasonal price signal by making changes within their homes (e.g., reducing a/c load in July and August, installing weather stripping, utilizing programmable thermostats) to conserve energy during high cost/high demand periods.

Potential Options:

- Maintain the status quo: higher rate in Winter (September-February) and lower rate in Summer (March-August)
- Change the seasons to reflect a higher "Standard" rate during July-February and a lower rate in the Spring (March-June).
- Eliminate seasonally differentiated rates and charge a flat rate year-round.
- Eliminate seasonal rates for residential customers but maintain seasonal rates for all General Service customers

RAC Proposals/Vote:

- Keep the status quo. (12/19: W. Anderson, Case, Chen, Foster, Francis, Gering, Kauffman, Okeson, Rader, Warner, Wolfer, Wolverton; 2 opposed: Conlin, Webb; 1 abstain: Jacoby)
- Change the seasons to reflect a higher rate for 8 months and a lower rate for 4 months. (4/19: J. Anderson, Bauer, Bentler, Dixon; 2 opposed: Conlin, Webb; 1 abstain: Jacoby)

Reasons to Support the Status Quo:

- Changing the seasonal rate design has the potential for confusing customers.

Reasons to Support a Change to Standard (8 month) and Spring (4 month) Rates:

- Send a price signal to customers that promotes energy conservation during high demand/low supply months. A differentiated rate has the effect of passing on higher energy costs to customers during higher cost periods.

Peak/Off-Peak Rates

Background:

- Currently, SCL differentiates between Peak Rates (M-F, 6 a.m.-10 p.m.) and Off-Peak Rates (all other times).
- Peak and Off-Peak Rates apply only to Large General Service (LGS) and High Demand General Service (HDGS) customers because those customers each have individual time-of-day meters installed at their locations. In total, 150 customer accounts could be affected by this change.
- The price of energy (as measured by the Mid-Columbia Price Forecast) during Saturday daytime hours is approaching the price of electricity during weekday daytime hours.

Potential Options:

- Maintain the status quo.
- Charge peak rates during daytime hours (6 a.m.-10 p.m.) on Saturday in addition to peak rates during daytime hours Monday through Friday.

RAC Proposals/Vote:

- Extend peak rate to Saturday daytime hours. (12/18: J. Anderson, W. Anderson, Bauer, Bentler, Conlin, Dixon, Foster, Francis, Jacoby, Kauffman, Okeson, Rader)
- Keep the status quo. (6/18: Case, Chen, Gering, Warner, Wolfer, Wolverton)

Reasons to Support Extension of Peak Hours:

- The change sends an appropriate price signal to customers encouraging them to conserve energy during times when the price of electricity is high.
- The change may have a beneficial impact for high-rise office buildings that do not currently operate on Saturdays because all peak rates may be lowered slightly by adding Saturday daytime hours to the peak rate category.

Reasons to Retain Status Quo:

- The change could adversely impact large department stores that conduct much of their business on Saturdays. If those stores experience a rise in electricity costs, those added costs may be reflected in higher merchandise prices.
- The change could have an adverse impact on HDGS customers that have changed their operations in the past to take advantage of Saturday Off-Peak hours and with the change would have a narrower window of opportunity for taking advantage of Off-Peak hours. Alternatively, HDGS customers may shift load from Saturdays to weekdays if the cost of energy is the same but personnel costs during the week are lower than on weekends.

Cost Allocation

Streetlight Rates

Background:

- In conducting the analysis for Further Unbundling, SCL changed the methodology for allocating costs resulting in the assignment of more direct hours, miscellaneous distribution costs and a portion of Administrative and General costs to streetlights. This methodology is designed to more truly represent the actual costs of providing streetlighting service.

Potential Options:

- Maintain the status quo, i.e. assign no additional costs to the streetlight class than they already are paying.
- Change the methodology used in setting streetlight rates so that more direct hours, miscellaneous distribution costs and a portion of Administrative and General costs are covered in those rates.

RAC Proposal/Vote:

- Allocating certain distribution system costs to streetlights is inappropriate. Streetlights are installed on existing distribution infrastructure and allocating distribution and transformer costs based upon energy usage overstates their impact on that distribution system. (consensus)
- Allocating appropriate labor and accounting costs to streetlight rates is consistent with SCL's policies and supported by the RAC. (16/18: J. Anderson, W. Anderson, Case, Chen, Conlin, Dixon, Foster, Francis, Jacoby, Kauffman, Okeson, Rader, Warner, Webb, Wolfer, Wolverton; 1 abstain: Bauer, 1 opposed: Bentler)
- If SCL allocates appropriate labor and accounting costs to the streetlight rates, the impact of these rate increases should fall under a gradualization limit of 5 percent. (15/19: J. Anderson, W. Anderson, Bauer, Case, Chen, Dixon, Foster, Gering, Jacoby, Kauffman, Okeson, Rader, Warner, Wolfer, Wolverton; 2 opposed: Webb, Bentler; 2 abstain, Francis, Conlin)

Allocation of Streetlight Rates

Background:

- Seattle's General Fund currently pays for the cost of streetlights.
- At current rates, the General Fund streetlight bill is about $5 million per year.
- The impact of transferring streetlight costs to the ratepayer would be an increase in current rates of approximately 1.5 to 2%.

Potential Options:

- Maintain the status quo, whereby the General Fund continues to pay for the cost of streetlights.
- Shift the payment responsibility for Seattle streetlights from the General Fund to the Light Fund with revenues from electric rates covering these costs.

RAC Proposal/Vote:

- It is inappropriate to shift General Fund obligations to the ratepayer. Streetlights are a public service and the cost should be paid through tax revenues. (consensus)

Network Rates

Background:

- SCL provides distribution services in the Central Business District, First Hill and the University District through a network configuration. Network systems are used in areas of high load density and where greater than average reliability is desired.
- Network service is more reliable than regular service because of the redundancy of certain critical elements - if one segment fails, power will continue to flow. For the same reason, network service is more expensive to provide.
- In the Central Business District, which includes the majority of customers served by a network, the system is underground. In First Hill, the network system is aboveground. In the University District, the network is configured differently and is also unique in that expected load growth was never realized in that area.
- Compared to non-network customers, it costs 40% more to serve residential network customers, 18% more to serve small general service network customers, 32% more to serve medium general service network customers, and 27% more to serve large general service network customers.

Potential Options:

- Maintain the status quo, whereby the cost of the network is spread across the entire service area.
- Create a separate rate class for Central Business District network customers and recover all costs associated with provided network service to this area to this class.
- Create a separate rate class for Central Business District network customers but charge those customers only a portion of the cost of providing network service to that area.

RAC Proposal/Vote:

- The higher cost of providing network service and the higher quality of service experienced by those served by the network distribution system in the Central Business District justify a surcharge on the rates of customers served thereby. (consensus)

- Residential and Small General Service customers in the Central Business District should pay 25% of the cost of network service allocated to their respective classes. (consensus)
- Medium General Service, Large General Service and High Demand General Service customers in the Central Business District should pay 50% of the cost of network service allocated to their respective classes (12/17: J. Anderson, W. Anderson, Bauer, Bentler, Case, Conlin, Francis, Gering, Kauffman, Dixon, Okeson, Rader)
- Medium General Service, Large General Service and High Demand General Service customers in the Central Business District should pay 100% of the cost of network service allocated to their respective classes (5/17: Foster, Jacoby, Warman, Webb, Wolverton)

Further Unbundling

Background:

- When setting rates, SCL allocates its revenue requirements to customer classes in proportion to the marginal cost of serving each class.
- Starting in 1997, the revenue requirements and marginal costs were divided into functions and the functional revenue requirement was allocated to customer classes in proportion to the functional marginal cost of providing service to each class.
- It is possible to further unbundle both the revenue requirements and marginal cost, which would significantly change the allocation of distribution costs among classes.

Potential Options:

- Maintain the status quo.
- Further unbundle the functional revenue requirements and the functional marginal costs.

RAC Proposal/Vote:

- The RAC supports SCL's decision to not go forward with further unbundling. The justifications and full ramifications of this issue have not been demonstrated to the Committee. A future RAC may decide to address this issue. (12/17: J. Anderson, W. Anderson, Bauer, Bentler, Chen, Dixon, Foster, Francis, Jacoby, Kauffman, Okeson, Rader; 3 opposed: Case, Warner, Wolverton; 2 abstain; Conlin, Webb)

Rates for Non-Seattle Customers

Background:

- SCL recently signed franchise agreements with Burien, Lake Forest Park and Shoreline. Agreements are being negotiated with Normandy Park, Renton, and SeaTac.
- The new franchise agreements specify that SCL must pay each franchise city an amount annually equal to 6% of the energy portion of SCL's revenue from customers within that city.
- According to the new franchise agreements, SCL can't charge over 8% more for energy in franchise cities than is charged to Seattle customers.

Potential Options:

- Maintain the status quo.
- Charge all non-Seattle customers a surcharge equal to 8% of energy revenue.

RAC Proposals/Vote:

- Maintain the status quo. (5/19: Bauer, Chen, Francis, Okeson, Webb, 2 abstain: Gering, Bentler)
- Charge all non-Seattle customers a surcharge up to 8% of energy revenue. (12/19: J. Anderson, W. Anderson, Case, Conlin, Dixon, Jacoby, Foster, Kauffman, Rader, Warman, Wolverton, Wolfer, 2 abstain: Gering, Bentler)

Reasons to Support Status Quo:

- SCL aggressively pursued non-City customers during its early years. Suburban customers therefore should not be considered marginal customers because they were not the most recent customers added to SCL's load.
- Without non-City customers and their revenues, the Skagit projects might not have been feasible.
- Suburban customers always have contributed to the Seattle General Fund through their rate, without any direct benefit.
- Neighboring utilities (PSE, Tacoma, SnoPUD) have uniform rates for all customers within a rate class.

Reasons to Support up to 8% Surcharge:

- Suburban customers have the option to choose an electricity provider other than SCL. The risk of exit justifies a surcharge.
- Suburban customers should be considered marginal customers because they can choose an electricity provider other than SCL; therefore, they should be served from the marginal resource, the wholesale power market, which is more expensive than SCL's own generation resources.
- The franchise agreements contain no stranded cost provisions. SCL has no recourse to continue to collect money from a suburban city if that city chooses a different electricity provider.

Closing

This concludes the recommendations of the Seattle City Light Rates Advisory Committee to the Seattle Mayor as of the August 20, 1999. Additional discussion regarding these recommendations and the Committee's deliberations is included in Appendix B attached.

Appendix A

Prioritization of Issues by the 1999 Citizens' Rates Advisory Committee

<u>Issues to be Considered in 2000 – 2002 Rate Review</u>

	HIGH	MEDIUM	LOW
Revenue Requirements			
BPA Contract Post – 2001			X
Managing O&M Costs		X	
BPA Transmission Rates			X
Amortization of High Ross Contract	X_1		
CIP Management and Reliance on Debt	X_1		
Capitalization Policies	X_1		
Support of Neighborhood Plans (1)		X_2	
Undergrounding Policy (1)		X_2	
Surplus Property Sales (1)		X_2	
Acquisition of Renewable Resources (1)		X_2	
Conservation Levels (1)		X_2	
Sound Transit (1)		X_2	
Endangered Species Act (1)		X_2	
Streetlights: Level of Investment			X
Pole Attachments			X
Financial Policies			
Managing Variable Water Risk			X
Additional Variable-Rate Debt	X_3		
Coverage of Variable-Rate Debt	X_3		
Require Net Income to be Positive			X
Replace Bond Reserve with Insurance			X
Level out Debt Service over Long-Term			X
Cost Allocation (2)			
Streetlight Rates	X		
Allocation of Streetlight Rates	X		
Network Rates	X		
Further Unbundling	X		
Rates for Non-Seattle Customers	X		
Rate Design (3)			
Customer Choice Options			X
Marginal Values of Energy/Externalities		X	
Seasonal Rates	X		
Peak/Off-Peak Rates	X		

*Note: Issues grouped together by Committee members can be identified by a common subscript number. Medium and low priority issues may be reshuffled once the Committee has addressed the high priority issues.

Additional Issues			
Low Income		X	

*Note: Issues grouped together by Committee members can be identified by a common subscript number. Medium and low priority issues may be reshuffled once the Committee has addressed the high priority issues

Appendix B

Further Deliberations on High Priority Issues

Discussion by RAC members about the high priority issues identified in this document raised many issues and concerns. Some of those are included here to provide readers with a sense of the nature of the discussions and, in some cases, concerns related to these high priority issues that were not resolved by the RAC.

Rate Design

Seasonal Rates

- The effect of SCL's proposal on low-income customers is unclear at this time. The vast majority of low-income homes do not have air conditioning, and therefore a rate increase in July and August would have the effect of increasing the bills for these customers because most would not have the ability to conserve more energy. Low-income customers would be adversely impacted by any rate increase during the Winter months when they are struggling to pay for their basic electricity needs as well as heating. Creating a standard eight-month rate could result in either lower or higher Winter rates, depending on how the seasonal rates are structured. If the effect of this change would be to increase rates (from their current level) in July and August but lower rates (from their current level) in September through February, the overall effect could be positive for low-income customers.
- If SCL implements the proposed change in Seasonal Rates, the utility should use this opportunity to educate its customers about the reasons for the change, i.e., sending a price signal to encourage energy conservation during times of relatively high demand and low supply.

Peak/Off-Peak Rates

- RAC members who addressed this issue in Subcommittee also discussed the possibility of establishing a separate Saturday rate which would be lower than the weekday daytime rate but higher than the Sunday daytime rate.
- A Large General Service customer that is on the cusp of being a Medium General Service Customer may face a disincentive to conserve because a Medium General Service customer does not have the option of paying peak and off-peak rates and would be included in a new rate schedule. To help address this issue, SCL could maintain a customer in its rate schedule for a specified period if that customer is working with SCL on energy conservation and might be bumped into a different rate schedule as a result of implementing conservation programs.
- If SCL implements the proposed change in Peak/Off-Peak Rates, the utility should use this opportunity to educate its customers about the reasons for the change, i.e., sending a price signal to encourage energy conservation during times of relatively high demand and low supply.

Appendix B Cont.

Cost Allocation

Streetlight Rates

- The SCL distribution system of poles, wires and transformers is designed to serve the residential, commercial and industrial customer loads. The distribution system is not changed by the addition of streetlights. The lighting fixtures are mounted on existing poles, and the small load of each streetlight (100-400 watts) requires no increase in wire or transformer size. Streetlights are an insignificant load and should be treated as such in cost allocations. Other new loads within the existing distribution system also may not significantly increase the load.

Allocation of Streetlight Rates

- Historically, the City of Seattle has paid for streetlights at the same rates as private citizens, King County and water districts.
- The General Fund is supported primarily by taxes that reflect ability to pay. The more expensive a home one can afford, the higher the property taxes. Because the sales tax does not apply to food, it reflects more discretionary spending and therefore ability to pay. Even the utility taxes are the same for residents whether they use electricity or gas for cooking, water heating and space heating. However, if the cost of streetlighting is added to SCL rates, the customer who uses electricity for cooking, water heating and space heating might pay an unfair share of streetlighting costs. This will impact customers of all income classes. High energy use relates primarily to the uses of electricity and the size of the family, rather than waste or ability to pay.
- If the City is allowed to shift the cost of streetlighting from the General Fund to SCL ratepayers, the door might be open for other taxpayer responsibilities to be shifted to SCL ratepayers (e.g., support of Neighborhood Plans, participation in the City's response to ESA listing of Chinook salmon, possibility of a special low municipal rate).
- Some RAC members expressed concern that ratepayers may not understand the rationale for and effect of shifting General Fund obligations and may not have adequate opportunity to provide input in the decision-making process. Similarly, shifting General Fund obligations may have the effect of hiding those costs in rates.
- Some RAC members expressed concern that shifting General Fund obligations may be regressive in effect, but the Committee did not have data to draw any definite conclusions.
- The Mayor and City Council are elected to manage the business of the City in the best interests of the City's taxpayers. They also act as the Board of Directors of an electric utility. In this capacity, they must act in the best interests of SCL's ratepayers. This can present a conflict of interest, for what is good for the taxpayers of the City may not be good for the ratepayers of SCL. We trust that our elected officials will recognize this distinction and act accordingly.

Appendix B Cont.

Network Rates

- Some discussion focused on the idea of not charging any residential or small general service customers for the cost of running the network system in the downtown core, whether they be inside or outside a network configuration, and allocating all costs for the network to the MGS, LGS and HDGS customers for whom the network was built.

Rates for Non-Seattle Customers

- Some RAC members expressed concern that the committee was not provided with specific information regarding the cost differential between serving City of Seattle customers versus suburban customers.
- Cities in Washington State have the right to charge 6 percent taxes for sales of electricity from municipally owned utilities. City Light has historically collected such taxes from its Seattle and suburban customers, with all revenues from such sales benefiting the City of Seattle general fund. That is, suburban customers of City Light have historically paid a City of Seattle 6 percent tax.

  The suburban cities have a genuine interest in obtaining their own tax revenues from sales of electricity within their service area. The City of Seattle has a genuine interest in retaining the tax revenues that it has collected historically from all sales of City Light power. However, the solution reached by the City of Seattle and several suburban entities in recent contracts to require City Light rate payers to pay higher rates in order to provide what amounts to tax revenues for suburban cities is upsetting to some members of the RAC. Some members of the RAC are not convinced of the other benefits of the contract between the City and suburbs.

  Moreover, because of the terms of these contracts between the City of Seattle and the suburban cities, the sole recourse to avoid higher rates from this City of Seattle decision is for City Light to attempt to find another means to differentiate the City and suburban customers and then to charge the suburban customers for the different service. This differentiation, in the past, has not been made.

  Some members of the RAC are displeased by the manner in which the City of Seattle handled this. The RAC has been put into the unhappy position of either recommending that City Light rates for all customers be raised to benefit suburban cities or that decades of equal rate-making treatment be discarded in order to avoid Seattle customers contributing to suburban city coffers. Suburban and urban committee members of the RAC have been pitted against each other over an issue that the City of Seattle should have settled.

Appendix C

Current RAC Members and Affiliations

NAME	REPRESENTS
Anderson, Jeannine	Low-income, conservation
Anderson, Wilbert	Future ratepayers
Bauer, Kristoff (Elizabeth Spencer)	Suburban cities
Bentler, Dan	Homeowners, small business
Case, Sharon (Travis Pofahl)	Birmingham Steel
Chen, Paul	PEMCO
Conlin, James	Residential customers, small businesses
Dixon, Danielle (Nancy Hirsh)	NW Energy Coalition
Foster, Anthony	Ratepayers
Francis, Roy	Ratepayers
Gering, Dave	Manufacturing Industrial Council
Havens, Gerald*	LaFarge Cement
Horswill, Emily*	Low-income, conservation
Jacoby, Daniel	Residential customers
Lambros, Paul	Plymouth Housing Group, Seattle/King County Housing Development Consortium
Lowe, Phyllis	DSHS
McWilliams, Joe (Rod Kauffman)	Wright Runstad (Building Owners & Managers Assoc.)
Okeson, Rud	Residential customers
Rader, John	Gai's NW Bakeries
Wakenight, Dee*	Low-income, elderly
Warner, Keith (Allan Warman)	Boeing
Webb, Larry	Unincorporated suburbs
Wolfer, Michael	Swedish Medical Center
Wolverton, Linc	Industrial customers

*Limited Participation