

## RATE DESIGN FRAMEWORK AND ASSESSMENT OF THE CURRENT RATE STRUCTURE

The City Light Review Panel seeks stakeholder input on this framework to identify potential additions and changes.

Rate Design Principle	Analysis of Current Rate Policies and Structures
<b>1</b> <b>Simple, understandable, feasible</b>	<p>Not clear how understandable rates are. Rates (and bills) may not do a good job of helping customers understand the relationship between their actions and their bill amounts.</p> <p>City Light does not offer pricing programs or opt-in rates like some utilities do. (Would customers like rate choices?)</p> <p><i>City Light should provide customers clear and understandable information about the level and structure of rates and any proposed changes to them. (1.D)</i></p>
<b>2</b> <b>Rates collect revenue requirement</b>	<p>Rates are set biennially at a level intended to collect the revenue requirement, based on a forecast of normal hydro production and customer consumption.</p> <p>There is no automatic mechanism to true up revenue when collections exceed or fall short of budget. (e.g. decoupling) Shortfalls are managed now through the capital budget by either increasing borrowing or undertaking fewer projects.</p> <p><i>Electric rates should be sufficient to meet City Light's annual revenue requirement. (2)</i></p>

*Blue italics denote pertinent existing City Light policies. Unless otherwise noted, policies were adopted in 2012 via Resolution 31351, parenthetical indicates resolution section.*

**Questions about rates and rate design? Find a glossary, current rate designs and publications at [seattle.gov/light/rates](http://seattle.gov/light/rates), or email [scl\\_rates@seattle.gov](mailto:scl_rates@seattle.gov)**

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<p><b>3 Provide stable revenue for utility</b></p>	<p>Revenues might be sufficiently stable for now; buffered by bond sizing. Revenue uncertainty is modest but increasing due to rising retail rates, changing technology, and uncertain heating demand. Disruptive energy technologies are a significant enterprise risk and could lead to future consumption being very different from projections.</p> <p>Revenue collection primarily through per kilowatt-hour charges (&gt;90%) means that revenue stream is highly dependent on electricity consumption.</p> <p><i>The Rate Stabilization Account (RSA) addresses variability of wholesale revenues and helps stabilize revenues and rates. (There is currently a 1.5% RSA surcharge added to customer rates to replenish the RSA.) Seattle Municipal Code Section 21.49.086</i></p>
<p><b>4 Provide stable, predictable bills for customers</b></p>	<p>Annual rate increases are significant but fairly stable. Six-year strategic plan sets long-term expected rate trajectory.</p> <p>Residential customers seem surprised by bills (e.g., winter)—bills may not be as predictable as customers want them to be.</p> <p><i>Gradualism—level of rate, and structure of rates, if changed should change in an orderly way over time. (1.C)</i></p>
<p><b>5 Fairly apportion cost of service</b></p>	<p>Due to low wholesale energy prices and rising retail rates, the financial benefit of conservation may be less than it was in past years.</p> <p>Aspects of rates that may not best reflect cost of service:</p> <ul style="list-style-type: none"> <li>• Fixed basic service charge (about \$10 bi-monthly) collects a fraction of the cost of connected service (about \$36 bi-monthly)</li> <li>• Using the same rates for single family and multi-family homes.</li> <li>• Residential block sizes (10 kWh/day summer, 16 kwh/day winter) haven't been evaluated in decades—they may or may not be sized appropriately.</li> <li>• Demand charges collect 20% of marginal cost of distribution.</li> <li>• No fixed basic service charges for commercial/industrial customers.</li> </ul> <p><i>Rates should reflect a fair apportionment of the different costs of providing service among groups of customers (3.B)</i></p> <p><i>Conservation costs are a power resource and thus chargeable to all customers (3.C)</i></p> <p><i>Low income rate assistance costs are allocated to all customers (3.D)</i></p> <p><i>Rate credits when customers provide their own transformer or metering infrastructure (4.D)</i></p>

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<p><b>6 Promote economic efficiency</b></p>	<p>Energy (per kwh) price signal not aligned with economics, may not accurately signal the value of conservation, solar generation.</p> <p>Advanced meters and new billing system offer new opportunity to update rate class definitions and legacy billing practices.</p> <p><i>Structure rates to encourage efficient use of resources needed to provide electrical service (1.B)</i></p> <p><i>Rates based on marginal cost of service (3.A)</i></p> <p><i>Deploy time of use rates when reasonably feasible (4.E)</i></p> <p><i>Charge higher rates for higher consumption (ascending block rates) (4.A)</i></p> <p><i>Demand charges should not decline as power sales to a customer increase (4.B)</i></p>
<p><b>7 Social justice</b></p>	<p>Rates have been increasing at over the rate of inflation for many years due to large capital investments, declining consumption and higher labor/operating costs. This seems likely to continue and, with load stagnant or declining, rate increases will be even higher, which is something that draws increasing attention from the public. Coupled with the rising cost of living, electricity bills may be an increasing burden for some customers.</p> <p>The Utility Discount Program (UDP) offers a 60% bill discount for customers with income below 70% of the state medium. (See <a href="http://www.seattle.gov/light/assistance/">http://www.seattle.gov/light/assistance/</a> for more information) Despite large increase in participation (30k participants, approximately \$18M annual subsidy in total), program may still be under-enrolled. No special rate design for UDP-all rates are 40% of regular rates.</p> <p><i>Residential first block sized to meet essential needs and priced at or below cost (4.C)</i></p> <p><i>Low Income rates shall be at least 50% lower than regular residential rates (4.F)</i></p>
<p><b>8 Environmental stewardship</b></p>	<p>A small number of programs designed to encourage customers to invest in socially-responsible new energy technology (e.g. solar, heat pumps, electric vehicles)</p> <p>High second block rate incentivizes residential solar installation and disincentivizes residential electric vehicle charging.</p> <p><i>Environmental stewardship is not explicitly identified in rate design policies but is a City Light value and is supported by City policies such as Resolution 301677, which directs City Light to promote the transition of electricity generation away from facilities that burn fossil fuels or use nuclear energy, and Resolution 30144, which resolves that the utility will maintain greenhouse gas neutrality, among others.</i></p>

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