**City Light Review Panel Meeting**
**Meeting Minutes DRAFT**

**Date of Meeting: February 26, 2019 | 11:00AM – 2:00PM | 901 Bldg – 19th Floor**

| **MEETING ATTENDANCE<br>Panel Members:** | | | | | |
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| **Names** | | Name | | Name | |
| Gail Labanara | √ | David Allen | √ | John Putz | √ |
| Sara Patton | √ | Patrick Jablonski | | vacant | |
| Thomas Buchanan | √ | Leon Garnett | √ | vacant | |
| **Staff and Others:** | | | | | |
| Debra Smith | √ | Paula Laschober | | Karen Reed (Consultant Contractor/RP Facilitator) | √ |
| Carsten Croff | √ | Kirsty Grainger | | Leigh Barreca | √ |
| Robert Cromwell | √ | CM Teresa Mosqueda | √ | Maura Brueger | |
| Gregory Shiring | √ | Erin House | √ | Kiersten Grove | √ |
| Eric McConaghy | √ | Aretha Basu | | Kathleen Wingers | √ |
| Josh Czebotar | √ | Jenny Levesque | √ | Brendan Armstrong | √ |

Welcome: Gail Labanara, Vice-Chair of the Review Panel, convened the meeting at 10:05 AM and led a round of introductions of all in attendance. She reminded the group of the scope of the rate design work to which they committed back in August, which was narrower than that requested by Council.

Review of Agenda: Karen Reed reviewed the agenda.

Meeting Minutes: Approved the January 8, 2019 meeting summary as submitted with the noted changes: in P.1 – Panel Vacancies, Robert Cromwell is listed twice and P.4, last paragraph should read, "Lacking additional time and a quorum, the discussion of decoupling was deferred to the next meeting."

Chair's Report: no report

Comments from Councilmember Teresa Mosqueda. The Councilmember thanked the group for all their work and noted that she will be sending a letter with comments and questions to the panel in a couple of days for their consideration. The Councilmember is happy to meet with anyone to talk about energy issues. She acknowledged that the Panel is missing some appointments. She said that if the Panel wants to take on other issues beyond energy that is fine. She thanked the community partners for their engagement on these issues. She introduced her staff person, Erin House, who will be attending Panel meetings in the future.

Public and Rate Design Stakeholder Comments. Karen Reed, Panel facilitator, asked if the Panel was amenable to extending the time for individual comment from the normal 3 minutes to 5 minutes; the Panel concurred.

- Alex Tsimerman, Stand Up America: There was a very large meeting at City Hall; this costs of lot in terms of staff time. Ten million dollars for nothing. He is glad that Debra Smith is meeting with the Panel; having bosses at these meetings should happen all across the City. Councilmembers do not respond to his questions and requests.

- Rod Kaufman, BOMA: Mr. Kaufman complimented the Panel for their work. What is important to BOMA is stable and predictable rates. Businesses need certainty. We want to be able to keep the competitive advantage in cost we have in electric power in this region -- that means keeping rates competitive. In terms of the pricing structure, BOMA is not really happy with the downtown network rates—the services promised have not been fully funded. The challenge his members have is that as rates are raised, the payback period on energy efficiency investments gets extended, which decreases owners' willingness to make investments. They really value having a 5-year predictable rate path. This predictability attracts businesses to our region.

  Q: How does the value of energy efficiency investments decrease if rates go up? A: It extends the time for payback of the investment by the building owner.

  Comment (D. Smith): Investments in conservation still result in lower bills—it is important to distinguish rates versus bills.

- Mike Hansen, Sabey Corp.: He said he echoed what Mr. Kaufman said. He likes the initial report from the Panel. He remains concerned that the franchise city agreements result in Sabey being double taxed in Tukwila. Transparency here would be appreciated. SCL's bills are not transparent—they would support more transparency. Time of Use rates are not helpful to his firm given their very flat load factor. Consider the different needs of different customers. We want to sell solar directly to their data center customers, and not be required to sell it to the Utility.

  Q: Why don't TOU rates help you? A: Our power demand is flat and constant.

  Comment: Sabey can't use these rates to its advantage but is not necessarily penalized by it.

  Q: In terms of solar power, what is it you want--to sell your surplus? To offset your load? A: We want to sell surplus solar.

  Comment (R. Cromwell): The large solar power tariff is in process (being developed at the Utility) and it would address this issue. We expect it will go to Council soon. It will only impact customers' solar arrays generating over 100 kW. The solar output will first offset the customer's retail energy use, and surplus energy will be purchased by City Light at a price related to the wholesale market.

- Stan Price, Putnam Price: Compliments to the Panel on the report. Comments are as follows:
  (1) Means and ends work is really good in the report. Rate design is more than just the revenue requirement. Other important goals can be promoted through rate design. This approach of means and ends integrates rates with the strategic plan goals.
  (2) The Report talks about inherent conflicts in rate design, such as predictable rates versus creating incentives for conservation. Pilots are an attractive idea to help balance these goals.
  (3) Caution the Panel on the allure of high fixed charges. Not against a basic service charge conceptually but it shouldn't include all conceivable fixed utility costs. To do so would erode the efficiency signal. But we must also respect the need for revenue certainty for the Utility.
  (4) Supports the idea of retail revenue shortfalls being supported by the RSA, as wholesale revenues are.

  Q: What would you include in the basic service charge? A: "A smidge." I don't have a specific dollar amount.

  Q: Would you include poles and wires? A: No. Q: Why? A: Transactional administrative costs should be included. If you include distribution costs and others, you melt away the intriguing ideas for the future. It's too easy to have a smorgasbord. It reduces the conservation signal too much.

  Q: The counterargument is that we have clean power. So, with volumetric recovery on fixed charges—then rates have to be raised to address this. That could be perceived as unfair. We're charging more than power actually costs. A: It certainly isn't the only end we want to see. It diminishes the Utility's incentive to lower its costs in the long term if all the fixed costs are covered in a fixed charge.

  Q: I don't see how that really creates the incentives you want. A: We should promote transportation decarbonization as well.

- Nancy Hirsh, NWEC: She thanked the Panel. The issues are complex and raise conflicts. Electrification of transportation will impact the Utility and its revenue requirement. Keep this long-term view in mind; loads will change. In terms of policy goals, on the economic efficiency goal, we think the framing is odd. We can't use all the power we create. There are other rationales for choice. We need to be efficient.

  On the goal of affordability, it can be done through means other than discounting rates.

She suggests changing the description to reflect that.

In terms of the "means", adjusting residential block rates or having flat rates—NWEC opposes flat rates.  It doesn't tell the customer about their use and seems counter to the TOU concept. On TOU rates: these need to be voluntary. Not all can or want to take advantage of them.  To be effective, the differential in rates needs to be very large.

Fixed charges are not equivalent to customer charges.  Call it a "basic customer charge" which is different than a fixed cost charge.

We think decoupling is a part of rate design.

Demand response—the window for pilots on this issue is past.  The best practices are clear.

We don't support pre-pay subscription programs for low income customers.

Q: Is your premise that large basic service charges discourage conservation?  A: Yes.  It should only cover cost of the meter, wire drop and billing.

Q: if the goal is to electrify, decarbonize, then charging more for power (in a second block) goes against that goal.  A: Yes, this is an inherent challenge.  We don't have an answer. We need to rethink this.

- Marcos Wanless/ Seattle Latino Chamber:  Modern economies are shaped by large businesses.  There is great economic disruption if one of them leaves.  An economy with a lot of strong small and medium size businesses is more resilient.  We'd like to see more Latino businesses in Seattle.  Your report notes a lack of small business input. Yes, it is very difficult to reach these populations. Please develop a plan to share with these customers any new rate plans.  Difficult to reach groups should be included.  If you ask small Latino businesses what energy needs they have, they will all say they want to pay less.  If would be helpful to offer them options for how they can reduce their costs. We are willing to help you with your communications in these areas.

  Q:  Is electricity a big issue for your customers? A: We feel we are subsidizing infrastructure for larger customers.

This ended the stakeholder comments. The Review Panel took a short break.

Panel Vacancies.  Robert Cromwell reported that the names of nominees have been forwarded to the City Council and the Mayor and we are awaiting their decisions.

Communications to Panel.  An email from a constituent seeking to contact Sara Patton is in the packet.

Communications to Panel. Debra Smith shared several items. First, kudos to her staff for the storm response. One thing that went really well was cross-departmental communication. Oddly, our snowpack is about 90% of normal—but SPU water levels in the Cascades are doing great. SCL is close to completing the Denny Substation. The grand opening will be in April, they hope. The South Lake Union network costs are part of the project—those will be borne by network customers. The substation costs are in the general rate-base. The Utility is working to sell three substation properties; two of them will be sold and used as affordable housing sites. We're selling the property at 2017 appraised values, based on a new state law. The asset value is based on comparable properties.

Residential Focus Group Preliminary Results. Leigh shared a high-level summary. The full report will be presented to the Panel at its next meeting. The top rate design goals of the residents were: transparency, affordability, and stable and predictable rates. Debra Smith then shared some results from a recent survey of Utilities noting that 35% of them have some board oversight in addition to state oversight. Top trends and concerns include: (1) physical and cyber security; (2) reliability; (3) aging grid infrastructure (4) rate design reform, (5) stagnant or negative load growth. In terms of rate design specifically, in response to a question about "the most appropriate rate design to recover fixed costs in face of declining demand" the top 3 answers were: (1) move customers to TOU rates; (2) increase fixed charges, (3) implement demand charges. Decoupling was supported by 20% of respondents. Debra will make the full survey results available if the group is interested.

Report out from Presentation to Council Committee. Kiersten Grove extended her thanks to Gail and Patrick for their time and input to this session. Gail noted that Councilmember Mosqueda quoted the original work scope in the Council resolution, although we sent her a much narrow scope in response. Councilmember Mosqueda was also anxious to see new rate design implemented this year. Gail and Debra outlined in the meeting why this is not feasible. Debra noted that the SCL-SPU customer portal cannot implement TOU rates yet. That is a future module of work; it is starting now but will be at least a year until it is fully-functional and then mid-2020 before we could act on TOU rates. She noted that it will be necessary to have simple fall back options to TOU rates. January 2021 is the earliest date for significant rate reform implementation. Leigh is working on an integrated roadmap of all the parts involved in rate redesign. We need to flesh out the pilot projects further. Staff will bring this back to the Panel. Goal is to conduct pilots in 2020.

Presentation and Panel Discussion. Carsten Croff presented the discussion on decoupling. He noted that public and private utilities may have different incentives with respect to energy efficiency and conservation investments. Private utilities have a financial incentive that discourages these investments.

Discussion points included:

- Is decoupling proposed to address revenue volatility? If this is a long-term issue, decoupling is a short-term answer that doesn't address the real problem.
- There are lots of ways to implement decoupling. It is typically pretty complex.
- The current RSA surcharge is at 1.5% and has been on for over a year. When will it end? A: Probably 2019, 3 years in total length.
- Usually the surcharge in decoupling is single digits.
- Stable and predictable rate goals are under-cut by this approach.
- The RSA is funded currently at a higher level than needed. There is some cushion, therefore, to expand use of that reserve to include retail rate shortfalls/surpluses.
- Decoupling shifts operating risk to the customer. The Utility is in a better position to manage this risk than the customer.
- If there is a revenue shortfall, is short term recovery from the RSA better than issuing long term debt? This raises a question of intergenerational equity. And it reduces the incentive to increase customer charges. There is still a disincentive on a public utility to fund energy efficiency.
- We don't want to reduce incentives for the Utility to manage its own costs.
- We currently have a BPA pass through surcharge when BPA rate increases are higher than had been forecast. Decoupling would be like that.
- We ended 2018 with more wholesale revenue than anticipated.
- You could really confuse customers if, for example, in 6 months you saw (1) the RSA surcharge come off, (2) the BPA surcharge come off, and then a rate increase in January. This isn't predictable for ratepayers.
- The RSA could be used in many ways in the future. The rules could be changed to help stabilize rates; you could implement decoupling with lower increases, longer term payback, advance notice before surcharges.
- In the strategic plan, the long-term debt trajectory was noted to be problematic. Maybe SCL should budget to more than 50-50 expectations. Maybe reduce use of debt as a buffer—although this would raise retail rates.
- For 2018 total retail revenues were about $20M below budget, or about 1%. This is still an estimate.
- If revenue was down, City Light had power to sell—but at a lower rate.
- Decoupling still incentivizes customers to conserve.
- In terms of the credit ratings of SCL, Moody's has noted that changes to the RSA might be viewed unfavorably. They will look to debt service coverage ratio which is comparatively low but buffered by both the RSA and city cash reserves.
- Debra noted that the automatic issuance of debt by SCL each year is odd to her; the fixed funding ratio for capital – 60-50 debt/cash is also unusual. She is working to understand this.

*Action item - Staff will schedule a session to talk with the Panel about SCL debt policy.*

Panel Recommendations on Rate Design. Karen noted the next task is to decide what further refinements the Panel wants to put in the final rate design report as compared to the initial report. She reviewed a discussion guide designed to elicit Panel direction here. The group agreed to defer this discussion until the next meeting. Gail encouraged all to be ready with their input.

The group discussed whether the Panel's report will be able to be completed on the current timeline. We have not yet seen Councilmember Mosqueda's comment letter. That could be a second phase of work potentially. Perhaps the report can be finalized after the next meeting without needing to reconvene the Panel for that purpose. Noted that a sizeable percentage of transmittals to Council do not meet deadlines and Mosqueda seems amenable to an extension if we ask. Staff will confer on the options here.

Next meeting: March 12th. We will review the request from Councilmember Mosqueda and the final focus group report and then go through the discussion guide to decide what refinements to make to the report.

The meeting adjourned at 1:50 PM