**INTIAL REPORT TO SEATTLE CITY COUNCIL ON RATE DESIGN PROJECT**

Presented by:
Seattle City Light Review Panel *and* City Light General Manager Debra Smith
*Report dated January 8, 2019*

## Introduction

The world in which electric utilities find themselves is changing rapidly, but City Light's rates have not changed notably in nearly 40 years. As stated in City Light's 2019-2024 Strategic Plan:

> Energy consumption is declining, contributing to under-collection of revenue and persistent rate pressure. One contributing issue is that City Light's rate structure does not match our cost structure: current rates mainly charge per unit of energy consumed, but most of our costs are fixed and do not decline when customers consume less electricity.

In July of this year, the City Council directed the City Light Review Panel (the "Panel" or "Review Panel") and the City Light General Manager to jointly undertake a rate design study effort. The desired scope was set forth in Section 5 of Council Resolution 31819, adopted July 9, 2018. This resolution called for submitting an initial report to Council by January 15, 2019, and a final report by August 1, 2019. The Review Panel responded to Council outlining a narrower scope of work that the Panel felt it could accomplish within the timeframe provided and has been pursuing that scope of work since August. In October Debra Smith began work as City Light's new General Manager, and as anticipated by Resolution 31819, the General Manager and the Review Panel are jointly submitting this Initial Report.

Following submission of this report, our work on rate design will continue. We plan to provide Council with a final report no later than April 1, as requested. That report will set forth our rate design priorities at a policy level, and our preferred rate design tools to accomplish those priorities. Consistent with the rate design initiative included in the 2019-2024 City Light Strategic Plan, City Light will undertake additional work after the April report is complete to develop detailed rate design proposals; it is anticipated that any proposals developed –other than pilot projects--would go into effect no earlier than January 2021. We welcome your thoughts on our work to date as outlined in this Initial Report. Please note that City Light has, in parallel, ween working with some of its

commercial customers who desire to deploy larger photovoltaic (PV) systems, above the 100kW net metering threshold in state law. To support this deployment of larger scale solar PV projects by City Light's customers, City Light will be submitting legislation requesting the City Council's approval of the commercial large solar program and pricing. That legislation is separate from the rate design process in which the Review Panel and City Light are now engaged.

**Project Work to Date and Next Steps**

The work plan we have pursued since August 2018 is consistent with the plan provided to the City Council and is reproduced at **Table 1** below. In sum, with the able assistance of City Light Staff, the Panel:

- Adopted a **draft situation assessment,** and a set of goals and objectives – referred to as "**draft framework principles**" -- to use as baseline data in outreach with stakeholders. (*See:* **Attachment 1**: Draft Situation Assessment; **Attachment 2**: Draft Framework Principles.)
- Reviewed results of recent local and national surveys of residential customers with respect to rate design.
- Invited over 74 stakeholders and stakeholder organizations to provide comment to the Panel, in person and otherwise, seeking response to a specific **set of stakeholder questions** (*See* **Figure 1**)
- Adopted a **scope of work for a comparative utilities report** to be completed by an outside consulting team engaged by City Light.
- **Conducted two 3-hour stakeholder meetings** in October, at which the Panel heard from individuals representing 13 organizations. (*See* **Attachment 3** for a list of participating stakeholders). Debra Smith was able to participate in the

**Figure 1: Review Panel Questions to Stakeholders**

1. What opportunities for improvement do you see in the current City Light rate structures?
2. What outcomes do you want rate design to promote?
3. How would you prioritize the eight key policy goals identified by City Light (*see* Draft Rate Design Framework and Assessment of Current Rate Structure document) and why?
4. What alternative rate structure options would be of interest to you and why? (for example, time of use rates or premium green power options, decoupling, higher fixed charges, etc.) What data can you share that indicates the option(s) you advocate would support the outcomes that are important to you?

second of these meetings. We received a wealth of ideas and rate design proposals from these meetings. The meetings were videotaped and can be viewed online.

After completing the stakeholder meetings, the Panel, together with Debra Smith and other City Light Staff:

- Discussed the main themes heard in the outreach and contained in the review of residential customer surveys. (*See* **Attachment 3**: Rate Design Stakeholder Feedback Themes)
- Reviewed the results of the comparative utility study prepared by Cuthbert Consulting based on our scope of work. (*See* **Attachment 4**: *Review of Electric Utility Rate Design Options* by Cuthbert Consulting). This report is discussed briefly below.
- Developed consensus on a **list of goals for rate design ("ends")** and a **list of concepts ("means")** we wish to study further between now and April. These items are presented in the last section of this Initial Report.

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## Table 1: SCL Review Panel Rate Design Update Proposed Work Plan

Submitted to City Council August 23, 2018

The table below shows how the City Light Review Panel proposes to accomplish the Rate Design Update Work Plan established by Council Resolution 31819. The Panel normally meets one time per month but will need to meet more frequently in order to accomplish the work plan outlined by Council. (**Blue text** notes major deliverables. *Italicized text* highlights stakeholder outreach/engagement work.)

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| **July 2018**<br><br>*1 meeting* | • Review Council resolution on strategic plan, rate design update work plan<br>• Discuss scope and focus of effort<br>• Review draft outline of work plan and offer suggestions<br>• Review 2017 letter from stakeholders<br>• Briefing: Rate Design 101 |
| **August**<br><br>*1 meeting* | • Review schedule and work plan of Utility Discount Program (UDP) interdepartmental team and discuss with them how Panel can best engage<br>• Approve **proposed rate design update work plan** and transmittal letter to Council, Mayor<br>• Review and discuss current SCL conditions to develop **draft problem statement** for rate design update work plan<br>• Review and discuss range of **goals and objectives** related to rate design.<br>• *Initial stakeholder outreach conducted by SCL staff on behalf of Panel—informing them of project, goals, timing for input, and seeking feedback*<br>• Briefing: Rate Design 201 |

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| **September**<br><br>*2 meetings* | • Brainstorming **draft goals and objectives** related to rate design<br>• Continued discussion, action: adopt **draft problem statement**<br>• Briefing: Review of major components of rate design alternatives—what are the tools, how they are used, what impacts do these tools have, what are the trade-offs.<br>• Identify **list of key questions** on which to seek stakeholder input, further information<br>• Confirm **scope for SCL's research on comparable utilities** requested by Council as part of the rate design update project<br>• *Confirm next steps in stakeholder outreach (who contacted, process for engagement with Panel)* |
| **October**<br><br>*2 meetings* | • *Two 3-hour sessions where **Panel hears from stakeholder group representatives,** responding to list of questions in writing and in person*. Sessions will be held on October 9 and October 23, from 11:00 a.m. to 2:00 p.m.<br>• Additional written input that cannot fit into these sessions will be taken and considered. |
| **November**<br><br>*2 meetings* | • *Additional stakeholder input session if needed.*<br>• Panel discussion:<br>o Identify key points of agreement/ disagreement amongst stakeholders.<br>o Agree upon major takeaways/themes from stakeholder input.<br>• Briefing: review draft of **comparative utility rate design report**<br>• Consider refinements to **draft problem statement** based on stakeholder input, comparative utilities rate design report.<br>• Consider refinements to **draft goals and objectives statement** based on stakeholder input<br>• Discuss/Identify Panel key points of agreement, disagreement, and remaining questions.<br>• Provide direction to staff to prepare **initial report** to Council. |
| **December**<br><br>*1 meeting* | • Review, edit and approve contents of **initial report** to Council, to include:<br>1. Report on comparable utilities (prepared by SCL staff)<br>2. Report on input from stakeholders<br>3. Draft statement goals and objectives related to SCL rate design<br>4. Draft problem statement<br>• Deliberations on rate design preferred approaches. |
| **January**<br><br>*1 or 2 meetings* | • Deliberations on rate design preferred approaches<br>• Develop **presentation to Council on initial report**<br>• *Outreach to stakeholders on initial report, process for providing additional input if desired.*<br>• **[Initial Report Due to Council by January 31 –** date reflects a two week extension offered by Councilmember Mosqueda**]** |
| **February**<br>*1 or 2 meetings* | • Deliberation on rate design preferred approaches<br>• *Opportunity for Additional Stakeholder input to Panel* |
| **March**<br>*1 or 2 meetings* | • Review **draft report to Council** and provide direction to finalize.<br>• Develop **presentation to Council on Panel recommendations** |
| **April** | • Present to Council<br>• **[Final Report Due to Council by April 1]** |

Next Steps

Consistent with our work plan, during our remaining time between now and submittal of a final report to Council, we will develop proposed priority policy goals and proposed actions that could be pursued in the immediate future (2-3 years) and longer term. That work will include:

- Outreach to residential and small business customers designed to gauge awareness of current rate structures, rate design tools available, and support for various policy goals.
- Another round of outreach to stakeholders regarding our draft set of policy goals ("ends") and range of action items ("means") both immediate and longer term.
- Consideration of what other electric utilities have done, as provided in the Comparative Utilities Report.

This remains an ambitious set of tasks, but we will seek to finish our work in March in order to meet the April 1 report date requested by Council.

**Observations on Initial Round of Stakeholder Input**

A summary of rate design themes we heard in our two October 2018 stakeholder is presented in **Attachment 3**. Without offering any final findings or recommendations, we observe that:

- There was insufficient response from small businesses and residents. The proposed residential and small business customer outreach is intended to respond in part to this gap.
- The conversational format we used for these meetings was very helpful to getting in-depth ideas from the stakeholders.
- The responding stakeholders reflected a range of groups and interests that the Utility is accustomed to hearing from: environmental stakeholders, energy efficiency advocates, large business customers, etc.
- The feedback included many conflicting requests, a reminder of the challenging policy balancing act that is inherent in rate design.
- The input was greatly helpful in refining our thinking with regard to policy objectives for rate design, and to populate our list of potential action items we intend to explore further.

A link to the videos of the two stakeholder meetings can be found at:
https://www.youtube.com/watch?v=pgXCCbMRXm0 and
https://www.youtube.com/watch?v=bkXlHElejQo

Written materials submitted can be found at
http://www.seattle.gov/citylightreviewpanel/meetings/materials .

We look forward to hearing from stakeholders at our third and final round of outreach, which will occur in late February.

**Report on Comparable Utilities' Rate Designs**

As noted above, Cuthbert Consulting, independent consultants to City Light, completed a *"Review of Electric Utility Rate Design Options"* based on a scope of work approved by the Review Panel in September 2018. This report is presented in full at **Attachment 4**. In sum, that scope of work sought to review rate designs of 15 electric utilities in addition to City Light:

- 8 large municipal electric utilities
- 4 large investor owned utilities in the Pacific Northwest, and
- 3 other municipal utilities that have adopted innovative rate designs.

The report also looks at the following specific rate design concepts, a list agreed to in September by the Review Panel:

- Inverted Block Rates
- Time of Use Rates
- Unbundled Rates
- Delivery or Access Charges
- Demand Charges
- Critical Peak Pricing
- Coincident Peak Pricing
- Green Power Rates
- Low Income Program Rates
- Decoupling Charges
- Distributed Energy Resource Rates
- Performance-based Rates

Many of these concepts were raised in the October stakeholder meetings. All these concepts are encompassed in the scope of the potential rate design action ideas that we will be examining in the months ahead, and the Cuthbert report will continue to be extremely helpful in that work.

**"Ends and Means": Ideas Under Further Consideration by the Review Panel and General Manager**

Over the course of the project, the Review Panel's thinking regarding goals of City Light's rate design has evolved slightly, as illustrated in **Table 2** below, which compares the "draft Framework Principles" for rate design we published in September as advance information to stakeholders, and our list of such goals/"ends" at this time. While this does not represent a final recommendation on our part, it shows our thinking at this time, and feedback from Council on this list would be welcome.

**Table 2** tracks the evolution of how the Panel is phrasing the priority principles for rate design. The left column shows a draft set of principles developed by the Review Panel and City Light at the outset of this effort, which was shared with stakeholders. The January 2019 columns show a

refined set of goals and definitions, as informed by learnings from customer surveys and stakeholder meetings.

**Table 2: Goals/"Ends" of Rate Design Crosswalk**

| **September 2018 Rate Design Principle** | **January 2019 Draft Goals/"Ends"** | |
|---|---|---|
| *Principle* | *Goal/End* | *Definition* |
| Simple, understandable, feasible | **Transparency** | Rates should be structured so that customers can easily understand what services they are paying for. |
| Rates collect revenue requirement<br><br>Provide stable revenue for utility | **Revenue Sufficiency** | Rates should be designed to collect the approved revenue requirement with a reasonable degree of certainty. |
| Fairly apportion cost of service | **Cost-Based** | Rates should reflect the Utility's cost of service, and each charge included on a customer bill should be designed to signal to customers the actual cost of providing the relevant service. |
| Provide stable, predictable bills for customers | **Stable & Predictable** | To aid customers in managing the financial impacts of their electricity bills, rate changes should be deliberate and gradual. |
| Promote economic efficiency | **Efficiency** | To conserve finite natural resources and minimize overall system costs, rates should be structured to encourage economically efficient use of power. This applies to electricity produced and purchased, as well as the wires and associated equipment needed for energy delivery. |
| Environmental Stewardship | **Decarbonization** | Rate design should reflect the goals of Seattle's Climate Action Plan, including promoting the use of clean power, incentivizing transportation electrification, and reducing greenhouse gas emissions. |
| Social Justice | **Affordability** | Rates should be designed to make electric service accessible for all customers; therefore, rates may be discounted for qualified low-income residential customers |
| | **Customer Choice** | Rate and billing options should reflect the diversity of our customers' energy needs and interests, so that customers may feel empowered to actively manage their energy consumption. |

The initial inclusion of social justice and environmental stewardship (two principles that are not explicitly included in the City's current rate design resolution) was intended to reflect our shared desire for a rate design that is progressive and aligned with City values. Social justice evolved to be defined as affordability and customer choice, which are two tangible ways that rate design can progressively impact this value. Similarly, the broad concept of environmental stewardship was narrowed to the specific goals of "efficiency" and "decarbonization" which pertain directly to rates.

Again, it is important to note that these goals may conflict. For example, creating incentives for de-carbonization has costs that may be inconsistent with the affordability goal. As another example, some strategies designed to promote energy efficiency may be inconsistent with stable and predictable customer bills. It may be informative to compare these policy principles with those in the City's current rate design resolution, Resolution 31351, adopted in 2012, which also highlights the conflict between the stated objectives. How these goals are balanced determines the "winners" and "losers" in any rate design proposal, which may suggest why it has been nearly four decades since any major restructuring of rates has taken place. Whatever the case, it is nevertheless true that, nationally, we are seeing many changes in rate design as local leaders and investor owned utilities grapple with the changing realities of the electric market and customer demands.

Looking forward, we will be evaluating a series of concepts and proposals against these goals/"ends." The list of ideas we are focused on is presented in **Table 3** below. Many of these were raised by stakeholders.

It is important to understand that, consistent with the goal of rates being "stable & predictable for customers" not all of these ideas can or should be rolled out at once, and all will require substantial public education advance work. Some would require extensive additional systems work within City Light. Therefore, we have divided these ideas into two groups: ideas that could potentially be implemented in the next 2-3 years, and those that would likely take longer.

**Table 3: Potential Rate Design Ideas/"Means" Under Discussion**

***Options that could be implemented in 2021-2022***

1. **Redesign bills** to be clearer and more transparent. Unbundle rates to show itemized charges for energy, delivery, and other services.
2. **Adjust residential block rates** to facilitate transition to time of use rates and choice/pilots, align with cost of service, and promote efficient decision making by customers.
3. **Time of use (TOU) rates** – expand use of rates that vary by season and time of day. Implement pilot TOU rate programs targeted at residences with electric vehicles (EVs) and transportation electrification.

4. **Budget and flat rate residential billing** – enhance programs to offer residential customers more options for predictable bills
    a. Pilot subscription flat-rate residential program pilot for low-income residential customers
    b. Use advanced meter data to expand access to budget billing program
5. **Fixed charge** recovers full fixed customer cost and included in all rate schedules
    a. Design to collect 100% of basic fixed cost for a customer; revisit cost of service to identify costs that are truly fixed.
    b. Convert minimum charge to basic service charge for all general service rates
6. **Interruptible/demand response** – explore rate pilot for large customers; rate should be cost-based to be a win-win. An interruptible rate is a lower rate where the customer agrees to curtail its use of energy at the utility's election when the utility's grid or supply is constrained or when economics for the utility so justify.

Near term ideas not primarily equated to rate design, but also under review, include:

7. ***Decoupling****/RSA mechanism for managing revenue swings. Decoupling involves an automatic surcharge or credit on bills to compensate for total retail revenue shortfalls/surplus in past periods.*
8. ***Utility Discount Program (UDP)*** *– Explore options to restructure UDP benefit, such as a larger subsidy for the fixed charge, or a sliding scale. A* ***City Interdepartmental Team on UDP is on point for this item;*** *the Panel will continue to track their proposals.*

***Options that would require longer-term study and implementation timelines***

1. **Green option** would offer a premium solar/super-green power supply alternative for customers (Could potentially lower bulk power costs for other customers?)
2. **Realign general service rate classes** to reflect new metering/billing capabilities and set foundation for offering customer choice. Redesign rates to smooth steps between classes (e.g., inclining charges based on service size), reduce number of rate classes.
3. **Bill redesign 2.0** – more unbundling opportunities. Show as separate charge on bills: RSA surcharge, BPA pass-through, UDP discount, franchise differential, cost of conservation, network delivery premium.
4. **Time of use rates 2.0 –** further expansion of TOU offerings, such as critical peak rate for winter evenings/mornings.
5. **Cost reassignment –** study opportunities to target collection for cost-added non-standard service attributes, such as undergrounded wires in single family neighborhoods, residential/small business network service, network service in First Hill, UW area.

6. **Demand charges** – develop long-term plan for role of demand charges in rates. A demand charge is a retail rate component that reflects a customer's peak use of energy and the infrastructure required to meet the customer's peak energy needs.

Again, we are not endorsing or recommending any of these ideas at this point in time.

## Conclusion

Reconsidering rate design provides an opportunity to ensure that practice is aligned with our goals for the utility and for the City of Seattle. Rate design is an extremely challenging conversation politically because it is essentially a zero-sum game: *who pays what amount to meet the revenue requirement?* That said, it is an important conversation that needs to engage policy leaders, customers and other stakeholders.

Over the past six months, City Light and the Review Panel have made considerable progress on this rate design project. We have established a scope of work, conducted significant outreach, assembled a full comparison of other utilities' rate design practices, and have developed draft goals ("ends") and options for rate design ("means"). In early 2019, we plan to further analyze and refine rate design options and conduct additional outreach in preparation for delivering our final report in April.

The Review Panel and the General Manager look forward to your feedback on this Initial Report, as we continue to work to complete this project.

**Attachments:**

1. Draft Situation Assessment
2. Draft Framework Principles
3. Rate Design Stakeholder Feedback Themes
4. *Review of Electric Utility Rate Design Options*, by Cuthbert Consulting, Inc., December 2018



1. Rate Design Situation Assessment.pdf



2. Rate Design Principles.pdf



3. Rate Design Stakeholder Feedback Themes.pdf



4. Review of Electric Utility Rate Design Options Dec2018.pdf