

RESOLUTION No. 30933

A RESOLUTION adopting long-term rate setting objectives and electric rate policies for the City Light Department

Introduced: 11-20-06	By: <i>Jan Fulkerson</i>
Referred: 11-20-06	To: Full Council
Referred:	To:
Reported: 11-20-06	
Passed: 11-20-06	Signed: 11-20-06
Filed: 11-27-06	Published: FULL 13 pgs

11-20-06 Adopted 9-0

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LAW DEPARTMENT

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RESOLUTION 30933

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3 A RESOLUTION adopting long-term rate setting objectives and electric rate policies for the City
4 Light Department and superseding Resolution 30685.

5 WHEREAS, the City Council adopted Resolution 30685 in 2004 establishing long-term rate
6 setting objectives and policies for the City Light Department; and

7 WHEREAS, the City Council intends to make every effort to ensure that adopted electric rates
8 remain unchanged for at least a two year period; and

9 WHEREAS, the City Council also intends to adopt long-term rate setting objectives and electric
10 rate policies for the City Light Department that supersede the policies established by
11 Resolution 30685; NOW, THEREFORE,

12 BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE, THAT:

13 Section 1. Long-Term Rate Setting Objectives

14 The following long-term rate setting objectives for the City Light Department are hereby
15 adopted. The objectives are intended to provide a general policy framework that can be
16 consistently applied to future rate reviews. Because some policy objectives may unavoidably
17 conflict with others, they should be considered in their entirety to strike an appropriate balance
18 among them when developing, reviewing, and prescribing electric rates for customers of the City
19 Light Department.
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21 A. Revenue Requirement

22 Electric utility rates should be sufficient to meet the City Light Department's revenue
23 requirements, while charging the lowest possible cost to the ratepayer over the long run.
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25 B. Customer Payment of Costs of Service
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1 Rates should be based on the costs of service to the customer. Rates should reflect
2 changes in the costs of service over time.

3 C. Equity

4 Rates should reflect a fair apportionment of the different costs of providing service
5 among groups of customers.
6

7 D. Efficiency

8 Rates should provide incentives for cost-effective conservation of electricity and the
9 efficient use of power resources.

10 E. Rate Stability

11 Rate levels and structures should be changed in an orderly manner over time.

12 F. Financial Stability

13 Revenue recovery from rates should promote financial stability, consistent with financial
14 policies of the City Light Department, as adopted by the Seattle City Council.
15

16 G. Public Involvement

17 Citizens should be ensured clear and understandable information and opportunities for
18 meaningful citizen participation in the City's rate decision process.
19

20 Section 2. Rate Review Process

21 The following process is hereby adopted. The process is generally comprised of three steps,
22 which are described below. While the documentation of each of the steps is done separately, the
23 documents are the basis of a single rate proposal made by the Mayor, reviewed by the public, and
24 reviewed and acted upon by the Seattle City Council.
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1 A. Revenue Requirement Analysis

2 The first step in the rate review process is analysis of the revenues required to meet the
3 operating and maintenance expenses, and to finance a portion of the City Light
4 Department's Capital Improvement Program consistent with financial policies described
5 in Section 4 below. The Revenue Requirements Analysis documents the City Light
6 Department's estimates of all relevant financial information over the period to be covered
7 by the rate review. The analysis includes a recommendation for a City Council decision
8 on a revenue level that determines the total dollar amounts to be included in rates to the
9 City Light Department's customers.
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11 B. Cost of Service and Cost Allocation

12 In the second step of the rate review process, the cost of serving each rate group is
13 analyzed. From this analysis, the share of the total revenue requirement to be collected
14 from each group is determined. The Cost of Service and Cost Allocation Report, which
15 serves as a basis for cost allocations, is prepared by the City Light Department and
16 supplemented by independent consultants as deemed appropriate by the Mayor and City
17 Council.
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19 C. Rate Design

20 In the third step of the rate review process, rate schedules are designed to recover the
21 revenues from each rate group as determined by the cost allocation procedure. In
22 designing rates for each group, the structure, components, and the relationship of the
23 components of each rate are determined. A Rate Design Report is prepared by the City
24 Council.
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1 Light Department, which includes recommendations on the rate design for each rate
2 group and documentation of where the proposed rate design departs from cost-based
3 rates.

4 **Section 3. Information to Customers and Participation in the Rate Process**

5 Consistent with previous resolutions, establishing the general policy of the City of Seattle
6 governing the provision of public information and opportunities for citizen participation in the
7 City's decision-making process, the City Council adopts the following policy for provision of
8 information to customers and opportunities for participation by City Light ratepayers. To ensure
9 citizen participation, City Light shall seek input from multiple ratepayer sources. One
10 mechanism for citizen participation shall be a Rates Advisory Committee. The Rates Advisory
11 Committee shall review and make recommendations to the City Light Superintendent, the Mayor,
12 and the City Council on issues associated with the rate review. Pursuant to the PURPA
13 Information to Consumers Standard, as adopted by Ordinance 109461 and revised in Ordinance
14 111528, the City Light Department shall comply with the policies and procedures listed below:

15 **A. Summary of Existing Rate Schedules**

16 The City Light Department shall transmit to each of its customers a clear and concise
17 summary of existing electric rate schedules applicable to each of the major rate groups.

18 **B. Explanation of Proposed Rate Schedules**

19 The City Light Department shall transmit to its customers a clear and concise explanation
20 of the first set of proposed rate schedules submitted by the Mayor to the City Council.
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1 The explanation shall be communicated no later than sixty days after the Mayor submits
2 his/her initial set of rate schedule proposals to the City Council.

3 In addition, at least one other time during the rate review process, the City Light
4 Department shall transmit to its customers a clear and concise explanation of the relevant
5 set of rate schedule proposals under consideration by the City Council. The explanation
6 shall precede the relevant City Council public hearing on said rate schedule proposals.
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8 C. Information on Residential Bills

9 The City Light Department shall transmit, on each of its residential bills, a clear and
10 concise statement of the customer's actual consumption of electricity for the
11 corresponding billing period during the prior year unless the consumption data are not
12 reasonably ascertainable by the utility. The itemized bill shall also clearly and concisely
13 explain the basis upon which the customers is charged per unit of consumption.
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15 Section 4. Rate Setting Policies

16 The following electric rate setting policies are adopted. These policies are intended in their
17 entirety to strike an appropriate balance among the long range objectives identified in Section 1
18 of this resolution. These policies are intended to provide overall guidance for the development,
19 review, and enactment of new electric rate structures. However, the policies may be revised in
20 subsequent electric rate reviews and/or as a result of the work performed pursuant to the studies
21 and analyses prepared for the next rate review.
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24 A. Rate Proposal
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1 City Light Department shall submit a rate proposal for City Council review every two
2 years. The proposed retail Revenue Requirements Analysis and a flow of funds statement
3 shall be submitted with the proposed budget for the following two years. The Cost of
4 Service and Cost Allocation Report and the Rate Design Report shall be submitted no
5 later than thirty days following submission of the Revenue Requirements Analysis.

6
7 In order to be considered by the City Council, the Revenue Requirements Analysis must
8 also include all supporting information needed or requested by the City Council or it will
9 be deemed incomplete and not be reviewed. Assuming all required documentation has
10 been received, the City Council's review of the rate proposal will commence no later than
11 sixty days after the budget review concludes with a goal of reaching a decision no later
12 than ninety days following the start of the review.

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14 The rate proposal submitted to the City Council shall also include a summary of the
15 recommendations from the Rates Advisory Committee described in Section 3 and a table
16 showing all proposed changes in assumptions and methodology from the prior rate
17 proposal.

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19 B. Financial Policies

20 The City Light Department's revenues from electric rates shall be sufficient to meet the
21 following financial policies established in Resolution 30761. These policies shall serve
22 as the basis for developing the City Light Department's revenue requirement analysis,
23 unless modified by subsequent Council action.
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1. Rate Setting Guideline. It is the policy of the City of Seattle to set electric rates at levels which will ensure that net revenue available to fund capital requirements in each calendar year will be positive with a probability of at least 95%, taking into account the variability of cash flows resulting from the uncertainty of water conditions, market prices, and system load. For purposes of implementing this financial policy, net revenue available to fund capital requirements is defined as the amount of revenue remaining after payment of operating and maintenance costs, principal and interest on outstanding debt, taxes, all other current obligations and deposits to the Contingency Reserve Account described below. It is also the policy of the City of Seattle that rates shall be set to ensure that the first and second lien debt shall achieve a debt coverage ratio of 2.0.

2. Contingency Reserve Account. A Contingency Reserve Account in the amount of \$25 million will be maintained in the Light Fund. Funds in the Contingency Reserve Account may be used to cover current obligations in any year in which the amount of net revenue available to fund capital requirements is not positive. Within two years of the withdrawal of funds from the Account, available net revenues shall be deposited in the Account until the targeted balance of \$25 million is restored.

3. Operating Cash Balance. In addition to funds in the Contingency Reserve Account, the City Light Department shall maintain sufficient operating cash

1 balances in the Light Fund to absorb fluctuations in its operating cash flow. In
2 its rate proposals, the City Light Department shall target a minimum month-
3 end operating cash balance of \$30 million.

- 4 4. Debt-to-Capitalization Ratio. The City Light Department shall set rates to
5 achieve a debt-to-capitalization ratio of 60% by year end 2010. The debt-to-
6 capitalization ratio is the total amount of debt outstanding divided by the sum
7 of the accumulated equity and debt outstanding.
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9 C. Cost of Service and Cost Allocation Policies

10 The cost allocation methodology used by the City Light Department shall allocate the
11 City Light Department's energy, demand, and customer costs among customer groups in a
12 manner that is equitable and consistent with the long-range objectives listed in Section 1
13 of this Resolution. The allocation of costs among rate groups shall be determined by a
14 cost of service study.
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- 16 1. Marginal Cost of Service Study. A marginal cost of service study shall be
17 filed with the next rate proposal. This study shall be the primary basis for
18 allocating the cost of providing electric service to the rate groups.
19
20 2. Average Embedded Cost of Service Study. The City Council shall oversee the
21 preparation of an average embedded cost study using data from the rate
22 proposal for 2007 and 2008 rates submitted by the City Light Department. All
23 materials necessary for this study to be performed by a Council funded
24 consultant shall be provided by the City Light Department in a timely manner.
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1 After reviewing the results of the average embedded cost study, the City
2 Council will determine whether the City Light Department should use this
3 method in the future.

4 3. Gradualism Adjustments. If a change in the cost of service allocation results
5 in rates that would cause extreme impacts on a particular rate group, a method
6 of mitigating the rate impact may be considered and implemented.

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8 4. Conservation Expense. Conservation expenditures shall be allocated to all
9 rate groups.

10 5. Rate Assistance Expense. The costs of rate assistance shall be allocated to all
11 rate groups.

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13 6. Bonneville Power Administration Rates. Bonneville Power Administration
14 rate increases and decreases shall be passed through to customers
15 administratively as described in Section 5 of Resolution 30428.

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17 7. New Network Service. Prior to the date of the submission of the next rate
18 proposal or the expenditure of City Light Department funds for the design of
19 new network service, whichever comes first, the City Light Department shall
20 develop estimated rates and charges for new network service that reflect the
21 potential full cost of this service. The City Light Department shall propose,
22 for City Council consideration, network rates, surcharges, other charges,
23 assessments, and/or contributions in aid of contribution, and the anticipated
24 cost recovery period. Such proposal shall recover the cost of (i) planning,
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1 engineering, and design work, (ii) constructing an underground distribution
2 system and a new substation if required, and (iii) equipment necessary for
3 network service. Other charges, for example, increasing the power factor rate
4 shall also be considered when these will better reflect the costs that network
5 service customers impose on the electric system. The City Light Department
6 may also consider creation of a Local Improvement District to finance all or
7 part of the network improvements, including construction of a new substation
8 and an underground distribution system. In its network rate proposal, the City
9 Light Department shall analyze the impact of load growth and costs associated
10 with residential and small business customers located within a network service
11 area.
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- 14 8. First Hill and University District Study. No later than the date of submission
15 of the next rate proposal, the City Light Department shall conduct a study of
16 the First Hill and University District network areas and submit a
17 recommendation on whether the existing network service rates should be
18 applied to those areas. The City Light Department shall also conduct an
19 analysis of the impact of load growth and costs associated with serving
20 residential and small business customers located in First Hill, the University
21 District, and the existing Downtown network. The results of this analysis
22 shall be presented with the next rate proposal along with a recommendation on
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1 whether residential and small business customers in any of these three network
2 areas should be charged network rates.

- 3 9. Interruptible Rates. The City Light Department may propose an interruptible
4 rate at any time. However, any such proposal must (i) be based on the cost of
5 service, (ii) provide demonstrated benefits for both the customer and other
6 City Light Department ratepayers, (iii) be based on actual interruption of the
7 customer, and (iv) be voluntary on the customer's part.
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9 D. Rate Design Policies

10 The Rate Design Study shall be based on the following principles:

- 11 1. Ascending Energy Blocks. Rates should be designed on the basis of
12 ascending charges for amounts, or blocks, of energy, where blocks are
13 feasible.
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15 2. Demand Charges. Rates with demand components should not contain
16 declining demand charges.
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18 3. Residential First Block. The first block of electricity for the essential needs of
19 residential customers should be priced below the average cost of service to
20 those customers. Essential needs include the electricity used by a typical
21 residential customer for cooking, refrigeration, and lighting.
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23 4. Discounts. Discounts shall be provided to customers with customer-owned
24 transformers and to customers who are metered before transformation.
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1 5. Time-of-Use and Seasonal Rates. The City Light Department shall investigate
2 cost-effective real time, time-of-use, and seasonal differentiation options
3 where they can be implemented.

4 6. Fixed Charge. The City Light Department shall consider setting a fixed
5 charge for all rate classes to stabilize revenues and bills taking into account
6 other rate elements, but at a level that sends the appropriate price signals to
7 customers.
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9 7. Low Income Customer Costs. The impacts of the costs of electricity shall
10 continue to be mitigated for the City Light Department's low income
11 customers.
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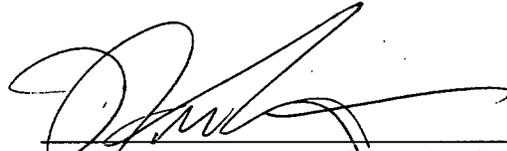
13 8. Contract Demand. In order to balance demand and energy price signals, the
14 City Light Department shall propose a contract demand charge for large and
15 high demand general service customers to send price signals to customers with
16 new or expanded service requests that will encourage those customers to
17 manage their loads.
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1 Section 5. Resolution 30685 Superseded

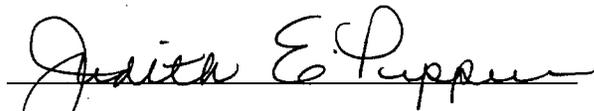
2 Resolution 30685 is hereby superseded and will have no further force or effect.

3 Adopted by the City Council the 20th day of November, 2006, and signed by me in
4 open session in authentication of its adoption this 20th day of November, 2006.

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7 President _____ of the City Council
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11 Filed by me this 20 day of Nov, 2006.

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15 City Clerk
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18 (Seal)
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FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	DOF Analyst/Phone:
Legislative	Carol Butler 684-2580	

Legislation Title: A Resolution adopting long-term rate setting objectives and electric rate policies for the City Light Department.

- **Summary of the Legislation:**

This Resolution supersedes policies established by a previous rate resolution (Resolution 30685) adopted in 2004.

- **Background:** *(Include brief description of the purpose and context of legislation and include record of previous legislation and funding history, if applicable):*

The City Council will authorize new rates in C.B. 115751 that will be effective January 1, 2007. This resolution will reaffirms some policies, refines others, and adds new objectives that supersede those in Resolution 30685 which was adopted in 2004. Major new initiatives include conducting a study of the networks in the First Hill and University area in order for City Light to determine whether to recommend implementation of a network rate for these areas, performing an average embedded cost study before the next rate proposal, and reviewing the policy of exempting residential and small business customers from network rates.

Portions of this new resolution will also inform customers, the Mayor, and City Light of documentation, actions, and analysis that the Council requests prior to considering future rates and or a future rate proposal. This resolution also includes Council recommendations on revisions to the rate process and reaffirms the importance of a Rates Advisory Committee (RAC), as well as the role the RAC should play in developing rates.

- *Please check one of the following:*

This legislation does not have any financial implications. *(Stop here and delete the remainder of this document prior to saving and printing.)*



STATE OF WASHINGTON – KING COUNTY

--SS.

205025
CITY OF SEATTLE, CLERKS OFFICE

No.

Affidavit of Publication

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12th day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

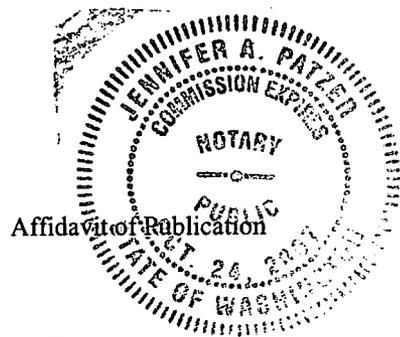
The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CT:30933 RESOLUTION

was published on

12/04/06

The amount of the fee charged for the foregoing publication is the sum of \$ 579.60, which amount has been paid in full.



Affidavit of Publication

Subscribed and sworn to before me on

12/04/06

Notary public for the State of Washington,
residing in Seattle

State of Washington, King County

City of Seattle

RESOLUTION 30933

A RESOLUTION adopting long-term rate setting objectives and electric rate policies for the City Light Department and superseding Resolution 30685.

WHEREAS, the City Council adopted Resolution 30685 in 2004 establishing long-term rate setting objectives and policies for the City Light Department; and

WHEREAS, the City Council intends to make every effort to ensure that adopted electric rates remain unchanged for at least a two-year period; and

WHEREAS, the City Council also intends to adopt long-term rate setting objectives and electric rate policies for the City Light Department that supersede the policies established by Resolution 30685; NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE, THAT:

Section 1. Long-Term Rate-Setting Objectives

The following long-term rate setting objectives for the City Light Department are hereby adopted. The objectives are intended to provide a general policy framework that can be consistently applied to future rate reviews. Because some policy objectives may unavoidably conflict with others, they should be considered in their entirety to strike an appropriate balance among them when developing, reviewing, and prescribing electric rates for customers of the City Light Department.

A. Revenue Requirement

Electric utility rates should be sufficient to meet the City Light Department's revenue requirements, while charging the lowest possible cost to the ratepayer over the long run.

B. Customer Payment of Costs of Service

Rates should be based on the costs of service to the customer. Rates should reflect changes in the costs of service over time.

C. Equity

Rates should reflect a fair apportionment of the different costs of providing service among groups of customers.

D. Efficiency

Rates should provide incentives for cost-effective conservation of electricity and the efficient use of power resources.

E. Rate Stability

Rate levels and structures should be changed in an orderly manner over time.

F. Financial Stability

Revenue recovery from rates should promote financial stability consistent with financial policies of the City Light Department, as adopted by the Seattle City Council.

G. Public Involvement

Citizens should be ensured clear and understandable information and opportunities for meaningful citizen participation in the City's rate decision process.

Section 2. Rate Review Process

The following process is hereby adopted. The process is generally comprised of three steps, which are described below. While the documentation of each of the steps is done separately, the documents are the basis of a single rate proposal made by the Mayor, reviewed by the public, and reviewed and acted upon by the Seattle City Council.

A. Revenue Requirement Analysis

The first step in the rate review process is analysis of the revenues required to meet the operating and maintenance expenses.

C. Rate Design

In the third step of the rate review process, rate schedules are designed to recover the revenues from each rate group as determined by the cost allocation procedure. In designing rates for each group, the structure, components, and the relationship of the components of each rate are determined. A Rate Design Report is prepared by the City Light Department, which includes recommendations on the rate design for each rate group and documentation of where the proposed rate design departs from cost-based rates.

Section 3. Information to Customers and Participation in the Rate Process

Consistent with previous resolutions, establishing the general policy of the City of Seattle governing the provision of public information and opportunities for citizen participation in the City's decision-making process, the City Council adopts the following policy for provision of information to customers and opportunities for participation by City Light ratepayers. To ensure citizen participation, City Light shall seek input from multiple ratepayer sources. One mechanism for citizen participation shall be a Rates Advisory Committee. The Rates Advisory Committee shall review and make recommendations to the City Light Superintendent, the Mayor, and the City Council on issues associated with the rate review. Pursuant to the PURPA Information to Consumers Standard, as adopted by Ordinance 109461 and revised in Ordinance 111528, the City Light Department shall comply with the policies and procedures listed below:

A. Summary of Existing Rate Schedules

The City Light Department shall transmit to each of its customers a clear and concise summary of existing electric rate schedule applicable to each of the major rate groups.

B. Explanation of Proposed Rate Schedules

The City Light Department shall transmit to its customers a clear and concise explanation of the first set of proposed rate schedule submitted by the Mayor to the City Council. The explanation shall be communicated no later than sixty days after the Mayor submits his/her initial set of rate schedule proposal to the City Council.

In addition, at least one other time during the rate review process, the City Light Department shall transmit to its customers clear and concise explanation of the relevant set of rate schedule proposals under consideration by the City Council. The explanation shall precede the relevant City Council public hearing on said rate schedule proposals.

C. Information on Residential Bills

The City Light Department shall transmit, on each of its residential bills, a clear and concise statement of the customer's actual consumption of electricity for the corresponding billing period during the prior year unless the consumption data are reasonably ascertainable by the utility. The itemized bill shall also clearly and concisely explain the basis upon which the customer is charged per unit of consumption.

Section 4. Rate Setting Policies

The following electric rate setting policies are adopted. These policies are intended in their entirety to strike an appropriate balance among the long range objectives identified in Section 1 of this resolution. These policies are intended to provide overall guidance for the development, review, and enactment of new electric rate structures. However, these policies may be revised in subsequent electric rate reviews and/or as a result of the work performed pursuant to the studies and analyses prepared for the next rate review.

A. Rate Proposal

The City Light Department shall submit a rate proposal for City Council review every two years. The proposed retail Revenue Requirements Analysis and a flow of funds statement shall be submitted with the proposed budget for the following two years. The Cost of Service and Cost Allocation Report and the Rate Design Report shall be submitted no later than thirty days following submission of the Revenue Requirements Analysis. In order to be considered by the

Council, the Revenue Requirements Analysis must also include all supporting information needed or requested by the City Council or it will be deemed incomplete and not reviewed. Assuming all required documentation has been received, the City Council review of the rate proposal will commence no later than sixty days after the budget review concludes with a goal of reaching a decision no later than ninety days following the start of the review. The rate proposal submitted to the City Council shall also include a summary of the recommendations from the Rates Advisory Committee described in Section 3 and a table showing all proposed changes, assumptions and methodology from the rate proposal.

B. Financial Policies

The City Light Department's revenue from electric rates shall be sufficient to meet the following financial policies established in Resolution 30761. These policies shall serve as the basis for developing the City Light Department's revenue requirement analysis, unless modified by subsequent Council action.

1. Rate Setting Guideline. It is the policy of the City of Seattle to set electric rates at levels which will ensure that net revenue available to fund capital requirements in each calendar year will be positive with a probability of at least 95%, taking into account the variability of cash flows resulting from the uncertainty of water conditions, market prices, and system load. For purposes of implementing this financial policy, net revenue available to fund capital requirements is defined as the amount of revenue remaining after payment of operating and maintenance costs, principal and interest on outstanding debt, taxes, all other current obligations and deposits to the Contingency Reserve Account described below. It is also the policy of the City of Seattle that rates shall be set to ensure that the first and second lien debt shall achieve a debt coverage ratio of 2.0.

2. Contingency Reserve Account. A Contingency Reserve Account in the amount of \$25 million will be maintained in the Light Fund. Funds in the Contingency Reserve Account may be used to cover current obligations in any year in which the amount of net revenue available to fund capital requirements is not positive. Within two years of the withdrawal of funds from the Account, available net revenues shall be deposited in the account until the targeted balance of \$25 million is restored.

3. Operating Cash Balance. In addition to funds in the Contingency Reserve Account, the City Light Department shall maintain sufficient operating cash balances in the Light Fund to absorb fluctuations in operating cash flow. In its rate proposals, the City Light Department shall target a minimum month-end operating cash balance of \$30 million.

4. Debt-to-Capitalization Ratio. The City Light Department shall set rates to achieve a debt-to-capitalization ratio of 60% by year end 2010. The debt-to-capitalization ratio is the total amount of debt outstanding divided by the sum of the accumulated equity and debt outstanding.

C. Cost of Service and Cost Allocation Policies

The cost allocation methodology used by the City Light Department shall allocate the City Light Department's energy, demand, and customer costs among customer groups in a manner that is equitable and consistent with long-range objectives listed in Section 1 of Resolution. The allocation of costs among groups shall be determined by a cost of service study.

1. Marginal Cost of Service Study. A marginal cost of service study shall be filed with next rate proposal. This study shall be the primary basis for allocating the cost of providing electric service to the rate groups.

2. Average Embedded Cost of Service Study. The City Council shall oversee the preparation of an average embedded cost study using data from the rate proposal for 2007 and 2008 rates submitted by the City Light Department. All materials necessary for this study to be performed by a Council-authorized consultant shall be provided by the City Light Department in a timely manner. After reviewing the results of the average embedded cost study, the City Council shall determine whether the City Light Department should use this method in the future.

Gradualism Adjustments. If a change in the cost of service allocation results in a rate increase that would cause extreme impacts on a particular rate group, a method of mitigating the rate impact may be considered and implemented.

Conservation Expense. Conservation expenditures shall be allocated to all rate groups.

Rate Assistance Expense. The costs of rate assistance shall be allocated to all rate groups.

Bonneville Power Administration

Increases and decreases shall be passed through to customers administratively as provided in Section 5 of Resolution 30428.

New Network Service. Prior to the date of submission of the next rate proposal, the expenditure of City Light Department for the design of new network service, whichever comes first, the City Light Department shall develop estimated rates for new network service that reflect the potential full cost of this service. The City Light Department shall propose, for Council consideration, network rates, charges, other charges, assessments, and contributions in aid of contribution, and anticipated cost recovery period. Such rates shall recover the cost of (i) planning, engineering, and design work, (ii) construction of an underground distribution system and substation if required, and (iii) equipment necessary for network service. Other factors, for example, increasing the power rate shall also be considered when rates better reflect the costs that network service customers impose on the electric system. The City Light Department may consider creation of a Local Improvement District to finance all or part of the network service, including construction of a substation and an underground distribution system. In its network rate proposal, the City Light Department shall analyze the effect of load growth and costs associated with residential and small business customers within a network service area.

8. First Hill and University District Study. No later than the date of submission of the next rate proposal, the City Light Department shall conduct a study of the First Hill and University District network areas and submit a recommendation on whether the existing network service rates should be applied to those areas. The City Light Department shall also conduct an analysis of the impact of load growth and costs associated with serving residential and small business customers located in First Hill, the University District, and the existing Downtown network. The results of this analysis shall be presented with the next rate proposal along with a recommendation of whether residential and small business customers in any of these three network areas should be charged network rates.

9. Interruptible Rates. The City Light Department may propose an interruptible rate at any time. However, any such proposal must (i) be based on the cost of service, (ii) provide demonstrated benefits for both the customer and other City Light Department ratepayers, (iii) be based on actual interruption of the customer, and (iv) be voluntary on the customer's part.

D. Rate Design Policies

The Rate Design Study shall be based on the following principles:

1. Ascending Energy Blocks. Rates should be designed on the basis of ascending charges for amounts, or blocks, of energy, when blocks are feasible.

2. Demand Charges. Rates with demand components should not contain declining demand charges.

3. Residential First Block. The first block of electricity for the essential needs of residential customers should be priced below the average cost of service to those customers. Essential needs include the electricity used by a typical residential customer for cooking, refrigeration, and lighting.

4. Discounts. Discounts shall be provided to customers with customer-owned transformers and to customers who are metered before transformation.

5. Time-of-Use and Seasonal Rates. The City Light Department shall investigate cost-effective real time, time-of-use, and seasonal differentiation options where they can be implemented.

6. Fixed Charge. The City Light Department shall consider setting a fixed charge for all rate classes to stabilize revenues and bills taking into account other rate elements, but at a level that sends the appropriate price signals to customers.

7. Low Income Customer Costs. The impacts of the costs of electricity shall continue to be mitigated for the City Light Department's low income customers.

8. Contract Demand. In order to balance demand and energy price signals, the City Light Department shall propose a contract demand charge for large and high demand general service customers to send price signals to customers with new or expanded service requests that will encourage those customers to manage their loads.

Section 5. Resolution 30685 Superseded

Resolution 30685 is hereby superseded and will have no further force or effect.

Adopted by the City Council the 20th of November, 2006, and signed by me in _____ session in authentication of its adoption the 20th day of November, 2006.

Nick Licata

President of the City Council

Filed by me this 27th day of November, 2006.

(Seal) Judith Pippin

City Clerk

Publication ordered by JUDITH PIPPIN
City Clerk

Date of publication in the Seattle I
Journal of Commerce, December 4, 2006

12/4/2006