

RESOLUTION No. 31351

A RESOLUTION adopting a policy framework for City Light rate setting objectives, rate design policies, and marginal cost allocation among customer classes.

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Introduced: <u>1.17.12</u>	By: <u>Energy + Environment</u>
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Reported:	
Passed: <u>May 7, 2012</u>	Signed: <u>[Signature]</u> <u>5.15.12</u>
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LAW DEPARTMENT

Committee Action =
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SC

April 16, 2012 Full Council
Held until April 30, 2012 9-0

April 30, 2012 Full Council Held until May 3, 2012 8-0 (excused: Conlin)

May 7, 2012 Full Council Adopted as Amended 9-0

PASS (3-0) MOB, TB, SC

US5171

RESOLUTION 31351

A RESOLUTION relating to the City Light Department; adopting a policy framework for City Light rate setting objectives, rate design policies and marginal cost allocation among customer classes.

WHEREAS, the City Council intends to reestablish and refine a general rate setting, design and cost allocation policy framework for City Light, which was previously adopted under Resolution 30933 in 2006, but was repealed by Resolution 31187 in 2010; and

WHEREAS, the City Light Review Panel, established by Ordinance 123256 in 2010, is charged with assessing City Light's rate design and its implementation of marginal cost allocation, by its second year of operation; and

WHEREAS, 2011 is the City Light Review Panel's second year of operation and it has included the above-mentioned assessment in its work plan beginning in mid-2011; NOW, THEREFORE,

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

Section 1. General Statement

The City Council adopts these rate-setting objectives for the Seattle City Light Department.

A. Conflict Among the Objectives

The objectives are intended to provide a general policy framework that can be consistently applied to future rate reviews. Because some policy objectives may conflict with others, they should be considered in their entirety to strike an appropriate balance among them when establishing electric rates for customers of City Light.

B. Efficiency

Rates should be structured so as to encourage the efficient use of resources needed to provide electrical service. This theme will find explicit expression in the allocation of costs among customers and in the design of rates to collect the appropriate shares.



1 C. Rate Predictability

2 (i) The level of base rates (that is, before surcharges) should be changed in an orderly
3 way over time so as to avoid disproportionate rate changes in any given year.

4 This goal is most likely to be accomplished through biennial updates to City
5 Light's strategic plan and financial policies which drive its revenue requirements
6 and hence its rates.

7
8 (ii) The structure of City Light rates should also change in an orderly way so as to
9 avoid large changes for some customers or customer classes. Should changes in
10 costs of service or rate design that disproportionately impact some customers or
11 customer classes be deemed necessary to meet the goals of these policies, those
12 changes may be phased in gradually to moderate the impact on the affected
13 customers or customer classes.
14

15 D. Public Involvement

16 City Light should make available to its customers clear and understandable information about the
17 level and structure of its rates and any proposed changes to them, and should provide its
18 customers the opportunities for meaningful participation in the rate-making process.
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21 Section 2. Revenue Requirements

22 City Light's revenue requirements should be consistent with the strategic plan and financial
23 policies adopted for it by the City Council, and electric rates should be sufficient to meet its
24 annual revenue requirements.
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1 Section 3. Cost Allocation

2 A. Marginal Cost of Service

3 To encourage the efficient use of resources, rates should be based on the marginal cost of service
4 to the customer, and should reflect changes in the marginal cost over time.

5 B. Equity

6 Rates should reflect a fair apportionment of the different costs of providing service among
7 groups of customers, generally referred to as “customer classes” or “customer rate classes.”
8

9 C. Conservation Expense

10 Since the City considers that conservation is a power resource, conservation expenditures shall
11 be allocated to all customer rate classes.

12 D. Low Income Rates and Bill Payment Assistance Expense

13 The costs of providing low income rates and bill payment assistance to low-income residential
14 customers shall be allocated to all customer rate classes.
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17 Section 4. Rate Design

18 To further the City’s desire to encourage the efficient use of both power supply and power
19 distribution resources, City Light’s base rates should be designed and structured to include the
20 following principles:
21

22 A. Higher Rates for Higher Consumption

23 Where possible, rates should increase as consumption increases. This may be accomplished by
24 establishing thresholds that define ever higher blocks of energy consumption, each block having
25 a higher rate than the preceding block. Such increasing block rates are intended to encourage the
26 efficient use of electricity. Should they be applied to classes other than Residential, the rate
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1 design should be carefully tailored to meet the Council's objectives of encouraging the efficient
2 use of electricity and encouraging economic growth.

3 B. Demand Charges

4 Rate schedules that include demand charges should not contain declining demand charges.

5 C. Residential First Block

6 The residential first block of electricity is intended to meet the essential needs of residential
7 customers and should be priced at or below the average cost of service to those customers. Rates
8 for subsequent blocks within the rate class should be set to recover any subsidy provided by the
9 first block.
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11 D. Rate Discounts

12 When a customer provides a portion of City Light's service infrastructure (such as a transformer
13 owned and maintained by the customer), or when the customer is metered on the utility's side of
14 the transformer (instead of the more usual customer-side metering), the customer will receive a
15 discount on rates reflecting the reduction in cost of service to the utility.
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17 E. Time-of-Use Rates

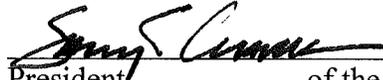
18 City Light shall implement time-of-use rates, whether seasonal, daily, or hourly, where such
19 differentiation options are reasonably feasible.
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21 F. Low Income Rates

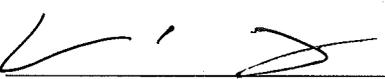
22 In all of its actions, the City has an interest in protecting the most vulnerable members of the
23 community. Rates for qualified low-income residential customers shall continue to be lower
24 than regular residential rates by at least 50%.
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1 Adopted by the City Council the 7th day of May, 2012, and
2 signed by me in open session in authentication of its adoption this 7th day
3 of May, 2012.

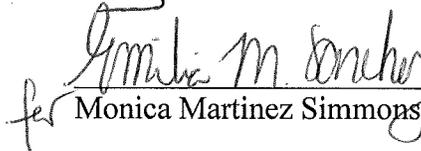
4 
President _____ of the City Council

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6 THE MAYOR CONCURRING:

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9 Michael McGinn, Mayor

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11 Filed by me this 16th day of May, 2012.

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for _____
Monica Martinez Simmons, City Clerk

14
15 (Seal)



FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
Seattle City Light	Paula Laschober 684-3168	Calvin Chow 684-4652

Legislation Title: A RESOLUTION adopting a policy framework for City Light rate setting objectives, rate design policies, and marginal cost allocation among customer classes.

Summary of the Legislation: Long-term rate setting objectives and electric rate policies for the City Light Department that supersede, reaffirm, or refine the policies established by previous Resolutions 30685 and 30933.

Background: Council Resolutions 30685 of 2004 and 30933 of 2006 provided a general rate setting and cost allocation policy framework but were repealed by Resolution 31187 of 2010, and the City Council intends to adopt a similar policy framework for the Review Panel for its assessment of City Light's rate design and marginal cost allocation.

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.)





City of Seattle
Office of the Mayor

December 20, 2011

Honorable Richard Conlin
President
Seattle City Council
City Hall, 2nd Floor

Dear Council President Conlin:

I am transmitting the attached proposed Resolution that establishes a general policy framework for City Light rate setting objectives, rate design policies, and marginal cost allocation among customer classes. Council Resolutions 30685 of 2004 and 30933 of 2006 previously provided these policies, but they were repealed by Resolution 31187 of 2010.

This Resolution specifies high-level policies that generally encourage objectives such as fair and equitable customer rates, efficient use of energy, and rate predictability. These objectives comprise a consistent set of principles that can be applied across future rate reviews. In the immediate future, the objectives outlined in this Resolution will provide a foundation for the City Light Review Panel's rate policy assessment in 2012.

Thank you for your consideration of this legislation. Should you have questions about the proposed policies for City Light rate setting, please contact Paula Laschober at 206/684-3168.

Sincerely,

Michael McGinn
Mayor of Seattle

cc: Honorable Members of the Seattle City Council



RESOLUTION 31351

A RESOLUTION adopting a policy framework for City Light rate setting objectives, rate design policies and marginal cost allocation among customer classes.

WHEREAS, the City Council intends to reestablish and refine a general rate setting, design and cost allocation policy framework for City Light, which was previously adopted under Resolution 30933 in 2006, but was repealed by Resolution 31187 in 2010; and

WHEREAS, the City Light Review Panel, established by Ordinance 123256 in 2010, is charged with assessing City Light's rate design and its implementation of marginal cost allocation, by its second year of operation; and

WHEREAS, 2011 is the City Light Review Panel's second year of operation and it has included the above-mentioned assessment in its work plan beginning in mid-2011; NOW, THEREFORE,

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

Section 1. General Statement

The City adopts these rate-setting objectives for the Seattle City Light Department.

A. Conflict Among the Objectives

The objectives are intended to provide a general policy framework that can be consistently applied to future rate reviews. Because some policy objectives may conflict with others, they should be considered in their entirety to strike an appropriate balance among them when establishing electric rates for customers of City Light.

B. Efficiency

A theme of these policies is efficiency: Rates should be structured so as to encourage the efficient use of resources needed to provide electrical service. This theme will find explicit

THIS VERSION IS NOT ADOPTED



1 expression in the allocation of costs among customers and in the design of rates to collect the
2 appropriate shares.

3 C. Rate Predictability

4 (i) The levels of base rates (that is, before surcharges) should be changed in an
5 orderly way over time so as to avoid disproportionate rate changes in any given
6 year. This goal is most likely to be accomplished through biennial updates to City
7 Light's strategic plan and financial policies which drive its revenue requirements
8 and hence its rates.

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10 (ii) The structure of City Light rates should also change in an orderly way so as to
11 avoid large changes for some customers or customer classes. Should changes in
12 costs of service or rate design that disproportionately impact some customers or
13 customer classes be deemed necessary to meet the goals of these policies, those
14 changes may be phased in gradually to moderate the impact on the affected
15 customers or customer classes.
16

17 D. Public Involvement

18 City Light should make available to its customers clear and understandable information about the
19 level and structure of its rates and any proposed changes to them, and should provide its
20 customers the opportunities for meaningful participation in the rate-making process.
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23 Section 2. Revenue Requirements

24 City Light's revenue requirements should be consistent with the strategic plan and financial
25 policies adopted for it by the City Council, and electric rates should be sufficient to meet its
26 annual revenue requirements.
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Section 3. Cost Allocation

A. Marginal Cost of Service

To encourage the efficient use of resources, rates should be based on the marginal costs of service to the customer, and should reflect changes in the marginal cost over time.

B. Equity

Rates should reflect a fair apportionment of the different costs of providing service, such as providing energy or distribution, among groups of customers, generally referred to as “customer classes” or “customer rate classes.”

C. Conservation Expense

Since the City Council considers that conservation is a power resource, conservation expenditures shall be allocated to all customer rate classes.

D. Low Income Rates and Bill Payment Assistance Expense

The costs of providing low income rates and bill payment assistance to low-income residential customers shall be allocated to all customer rate classes.

Section 4. Rate Design

To further the City’s desire to encourage the efficient use of both power supply and power distribution resources, City Light’s base rates should be designed and structured to include the following principles:

THIS VERSION IS NOT ADOPTED



1 A. Higher Rates for Higher Consumption

2 Where possible, rates should increase as consumption increases. This may be accomplished by
3 the establishing thresholds that define ever high blocks of energy consumption, each block
4 having a higher rate than the preceding block. .

5 B. Demand Charges

6 Rate schedules that include demand charges should not contain declining demand charges.

7 C. Residential First Block

8 The residential first block of electricity (see paragraph A in this section for a description of
9 blocks) is intended to meet the essential needs of residential customers and should be priced at or
10 below the average cost of service to those customers. Essential needs include the electricity used
11 by a typical residential customer for cooking, refrigeration, and lighting.
12

13 D. Rate Discounts

14 When a customer provides a portion of City Light's service infrastructure (such as a transformer
15 owned and maintained by the customer), or when the customer is metered on the utility's side of
16 the transformer (instead of the more usual customer-side metering), the customer will receive a
17 discount on rates reflecting the reduction in cost of service to the utility.
18

19 E. Time-of-Use Rates

20 City Light shall implement time-of-use rates, whether seasonal, daily, or hourly, where such
21 differentiation options are feasible.
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23 F. Low Income Rates

24 In all of its actions, the City has an interest in protecting the most vulnerable members of the
25 community. Rates for qualified low-income residential customers shall continue to be lower
26 than regular residential rates by at least 50%.
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Adopted by the City Council the ____ day of _____, 2012, and
signed by me in open session in authentication of its adoption this _____ day
of _____, 2012.

President _____ of the City Council

THE MAYOR CONCURRING:

Michael McGinn, Mayor

Filed by me this ____ day of _____, 2012.

Monica Martinez Simmons, City Clerk

(Seal)

THIS VERSION IS NOT ADOPTED



RESOLUTION 31351

A RESOLUTION adopting a policy framework for City Light rate setting objectives, rate design policies, and marginal cost allocation among customer classes.

WHEREAS, the City Council intends to reestablish and refine a general rate setting, design and cost allocation policy framework for City Light, which was previously adopted under Resolution 30933 in 2006, but was repealed by Resolution 31187 in 2010; and

WHEREAS, the City Light Review Panel, established by Ordinance 123256 in 2010, is charged with doing an assessment of City Light's rate design and marginal cost allocation, by its second year of operation; and

WHEREAS, 2011 is the City Light Review Panel's second year of operation and it has included the above-mentioned assessment in its work plan beginning in mid-2011; NOW, THEREFORE,

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

Section 1. Long-Term Rate Setting Objectives

The following long-term rate setting objectives for City Light 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 City Light.

A. Revenue Requirements

City Light's revenue requirements should be consistent with the strategic plan and financial policies established for it by the City, and electric rates should be sufficient to meet its annual revenue requirements.

THIS VERSION IS NOT ADOPTED



1 B. Customer Payment of Costs of Service

2 Rates should be based on the costs of service to the customer, and should reflect changes in the
3 cost of service over time.

4 C. Equity

5 Rates should reflect a fair apportionment of the different costs of providing service, such as
6 providing energy or distribution, among groups of customers, generally referred to as “customer
7 classes” or “customer rate classes.”

8 D. Efficiency

9 Rates should provide incentives for the efficient use of power and power distribution resources.
10 This means that rates should be structured so that customers face price incentives to conserve
11 energy and reduce peak capacity requirements.

12 E. Rate Predictability

13 The levels and structures of base rates (that is, before application of any surcharges) should be
14 changed in an orderly manner over time, so as to avoid disproportionate rate changes in any
15 given year for some customers or customer classes. For example, the results of changes in costs
16 of service that might cause some customer classes to receive large rate increases whereas other
17 classes would receive little or no rate increase could be phased in gradually.

18 F. Public Involvement

19 City Light customers should be provided clear and understandable information and opportunities
20 for meaningful participation in the City’s electric rate decision process.

THIS VERSION IS NOT ADOPTED



1 Section 2. Rate Design Policies

2 To further the City's desire to encourage the efficient use of both power and power distribution
3 resources, City Light's base rates should be designed and structured to include the following
4 principles:

5 A. Ascending Rates for Energy Blocks

6 Rates should be designed on the basis of ascending charges for increasing amounts, or blocks, of
7 energy, where blocks are feasible.
8

9 B. Demand Charges

10 Rate schedules with demand charge components should not contain declining demand charges.
11

12 C. Residential First Block

13 The residential first block of electricity is intended to meet the essential needs of residential
14 customers and should be priced at or below the average cost of service to those customers.
15 Essential needs include the electricity used by a typical residential customer for cooking,
16 refrigeration, and lighting.
17

18 D. Rate Discounts

19 When a customer provides a portion of City Light's service infrastructure (such as a transformer
20 owned and maintained by the customer), or when the customer is metered for technical reasons
21 on the utility's side of the transformer (instead of the customer's side, like most customers) a
22 discount from the customer's normal rates will be provided.
23

24 E. Time-of-Use Rates

25 Cost-effective time-of-use rates, whether seasonal, daily, or hourly, shall be implemented where
26 such differentiation options are feasible.
27



1 F. Low Income Rates

2 In all of its actions, the City has an interest in protecting the most vulnerable members of the
3 community. Rates for qualified low-income residential customers shall continue to be lower than
4 regular residential rates by at least 50%.

5 Section 3. Marginal Cost Allocation Among Customer Classes

6 The cost allocation methodology used by City Light shall allocate energy, demand, and customer
7 costs of providing electric service among customer classes in a manner that is equitable and
8 consistent with the rate setting objectives listed in Section 1 of this resolution.
9

10 A. Marginal Cost of Service Study

11 City Light rates shall be based on a marginal cost-of-service study, which shall be the primary
12 basis for allocating the costs of providing electric services among the customer classes.
13

14 B. Gradualism Adjustments

15 If a change in the cost-of-service allocation results in extreme bill fluctuations for a particular
16 customer class compared to other customer classes, a method of mitigating these bill impacts
17 may be considered and implemented. Such mitigation may include gradually moving to rates
18 based on full costs of service over two or more rate change periods.
19

20 C. Conservation Expense

21 Since the City Council considers that conservation is a power resource, conservation
22 expenditures shall be allocated to all customer rate classes.
23

24 D. Low Income Rates and Bill Payment Assistance Expense

25 The costs of providing low income rates and bill payment assistance to low-income residential
26 customers shall be allocated to all customer rate classes.
27

THIS VERSION IS NOT ADOPTED



STATE OF WASHINGTON – KING COUNTY

--SS.

284611
CITY OF SEATTLE, CLERKS OFFICE

No. 31331, 31351

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.

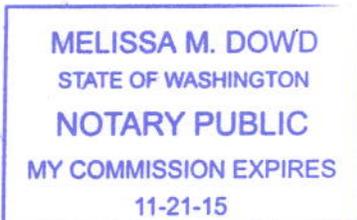
The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CT: TITLE ONLY RESOLUTION

was published on

05/29/12

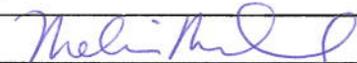
The amount of the fee charged for the foregoing publication is the sum of \$ 41.85, which amount has been paid in full.



Affidavit of Publication


Subscribed and sworn to before me on

05/29/12


Notary public for the State of Washington,
residing in Seattle



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City of Seattle

Title Only Resolutions

The full text of the following legislation, passed by the City Council on May 7, 2012, and published below by title only, will be mailed upon request, or can be accessed at <http://clerk.seattle.gov>. For information on upcoming meetings of the Seattle City Council, please visit <http://www.seattle.gov/council/calendar>.

Contact: Office of the City Clerk at (206) 684-8344.

RESOLUTION NO. 31331

A RESOLUTION relating to the Seattle Department of Transportation; rescinding Resolution 30636 and applying the City of Seattle's existing debt management policies to transportation debt.

RESOLUTION NO. 31351

A RESOLUTION relating to the City Light Department; adopting a policy framework for City Light rate setting objectives, rate design policies and marginal cost allocation among customer classes.

Date of publication in the Seattle Daily Journal of Commerce, May 29, 2012.

5/29(284611)