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cost allocation policy framework for City Light, which was previously adopted under Resolution 30933 in 2006, but was repealed by Resolution 31187 in 2010; and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.

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B. Customer Payment of Costs of Service

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

C. 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."

D. Efficiency

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

E. Rate Predictability

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

F. Public Involvement

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

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Section 2. Rate Design Policies

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

A. Ascending Rates for Energy Blocks

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

B. Demand Charges

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

C. Residential First Block

The residential first block of electricity is intended to meet the essential needs of residential customers and should be priced at or 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.

D. Rate Discounts

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

E. Time-of-Use Rates

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

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F. Low Income Rates

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

Section 3. Marginal Cost Allocation Among Customer Classes

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

A. Marginal Cost of Service Study

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

B. Gradualism Adjustments

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

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.

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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)

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Form revised: December 14, 2010

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
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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:

_X___This legislation does not have any financial implications.
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DOS CITY CLERK

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

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