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cost allocation policy framework for City Light, which was previously adopted under Resolution 30933 in 2006, but was repealed by Resolution 31187 in 2010; and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

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C. Rate Predictability

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

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

D. Public Involvement

City Light should make available to it customers clear and understandable information about the level and structure of its rates and any proposed changes to them, and should provide its customers the opportunities for meaningful participation in the rate-making process.

Section 2. Revenue Requirements

City Light's revenue requirements should be consistent with the strategic plan and financial policies adopted for it by the City Council, and electric rates should be sufficient to meet its 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 cost 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 among groups of customers, generally referred to as "customer classes" or "customer rate classes."

C. Conservation Expense

Since the City 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:

A. Higher Rates for Higher Consumption

Where possible, rates should increase as consumption increases. This may be accomplished by establishing thresholds that define ever higher blocks of energy consumption, each block having a higher rate than the preceding block. Such increasing block rates are intended to encourage the efficient use of electricity. Should they be applied to classes other than Residential, the rate

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design should be carefully tailored to meet the Council's objectives of encouraging the efficient use of electricity and encouraging economic growth.

B. Demand Charges

Rate schedules that include demand charges 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. Rates for subsequent blocks within the rate class should be set to recover any subsidy provided by the first block.

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 on the utility's side of the transformer (instead of the more usual customer-side metering), the customer will receive a discount on rates reflecting the reduction in cost of service to the utility.

E. Time-of-Use Rates

City Light shall implement time-of-use rates, whether seasonal, daily, or hourly, where such differentiation options are reasonably feasible.

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%.

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Adopted by the City Council the 7th day of May, 2012, and signed by me in open session in authentication of its adoption this 7th day of May, 2012.

President _____ of the City Council

THE MAYOR CONCURRING:

Michael McGinn, Mayor

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

for Monica Martinez Simmons, City Clerk

(Seal)

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Form revised: December 14, 2010

FISCAL NOTE FOR NON-CAPITAL PROJECTS

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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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