

DRAFT RATE DESIGN FRAMEWORK AND ASSESSMENT OF THE CURRENT RATE STRUCTURE

This document presents a framework of the Panel’s organizing thoughts about rate design policy and practice. The Panel seeks get stakeholder input on this framework to identify potential changes and additions.

	Rate Design Principle	Analysis of Current Rate Policies and Structures
1	Simple, understandable, feasible	<p>Not clear how understandable rates are- rates (and bills) may not do a good job of helping customers understand the relationship between their actions and their bill amounts.</p> <p>City Light does not offer pricing programs or opt-in rates like some utilities do. (Would customers like rate choices?)</p> <p><i>City Light should provide customers clear and understandable information about the level and structure of rates and any proposed changes to them. (1.D)*</i></p>
2	Rates collect revenue requirement	<p>Rates are set biennially at a level intended to collect the revenue requirement, based on a forecast of normal hydro production and customer consumption.</p> <p>There is no automatic mechanism (e.g. decoupling) to true up revenue when collections exceed or fall short of budget. Shortfalls are managed now through the capital budget by either increasing borrowing or undertaking fewer projects.</p> <p><i>Electric rates should be sufficient to meet City Light’s annual revenue requirement. (2)</i></p>
3	Provide stable revenue for utility	<p>Revenues might be sufficiently stable for now; buffered by bond sizing.</p> <p>Rate Stabilization Account (RSA) addresses variability of wholesale revenues and helps stabilize revenues and rates. (There is currently a 1.5% RSA surcharge added to customer rates to replenish the RSA.)</p> <p>Revenue uncertainty is modest but increasing due to rising retail rates, changing technology, and uncertain heating demand. Disruptive energy technologies are a significant enterprise risk and could lead to future consumption being very different from projections.</p> <p>Revenue collection primarily through energy charges (>90%) means that revenue stream is highly dependent on electricity consumption.</p>

**Blue italics denote existing policies documented in 2012 rate policy Resolution 31351, parenthetical indicates resolution section.*

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4	Provide stable, predictable bills for customers	<p>Annual rate increases are significant but fairly stable. Six-year strategic plan sets long-term expected rate trajectory.</p> <p>Residential customers seem surprised by bills (e.g., winter)—bills may not be as predictable as customers want them to be.</p> <p><i>Gradualism—level of rate, and structure of rates, if changed should change in an orderly way over time. (1.C)</i></p>
5	Fairly apportion cost of service	<p>Due to low wholesale energy prices and rising retail rates, the financial benefit of conservation is less than it was in past years. The value of efficiency and customer generation may be distorted by current rate policies.</p> <p>Situations where rates may not reflect cost of service:</p> <ul style="list-style-type: none"> • Solar net metering • Customer charge collects \$5 of the \$18 cost of connected service • First customer block size hasn't been evaluated in decades—may or may not be sized appropriately <p><i>Rates should reflect a fair apportionment of the different costs of providing service among groups of customers (3.A)</i></p> <p><i>Conservation costs are a power resource and thus chargeable to all customers (3.C)</i></p> <p><i>Low income rate assistance costs are allocated to all customers (3.D)</i></p> <p><i>Rate credits when customers provide their own transformer or metering infrastructure (4.D)</i></p>
6	Promote economic efficiency	<p>Energy (per kwh) price signal not aligned with economics, may not accurately signal the value of conservation, solar generation.</p> <p>Advanced meters and new billing system offer new opportunity to update rate class definitions and legacy billing practices.</p> <p><i>Structure rates to encourage efficient use of resources needed to provide electrical service (1.B)</i></p> <p><i>Rates based on marginal cost of service (3.A)</i></p> <p><i>Deploy time of use rates when reasonably feasible. (4.E)</i></p> <p><i>Charge higher rates for higher consumption (ascending block rates)(4.A)</i></p> <p><i>Demand charges where included should not decline as power sales to a customer increase (4.B)</i></p>

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7	Social justice	<p>Rates have been increasing at over the rate of inflation for many years due to large capital investments, declining consumption and higher labor/operating costs. This seems likely to continue and, with load stagnant or declining, rate increases will be even higher, which is something that draws increasing attention from the public. Coupled with the rising cost of living, electricity bills may be an increasing burden for some customers.</p> <p>Utility Discount Program (UDP) offers a large bill discount, a program that is among the most generous in the nation. Despite large increase in participation (30k participants, approximately \$18M total subsidy), program may still be under-enrolled. No special rate design for UDP-all rates are 40% of regular rates.</p> <p><i>Residential first block sized to meet essential needs and priced at or below average cost (4.C)</i> <i>Low Income rates shall be at least 50% lower than regular residential rates (4.F)</i></p>
8	Environmental stewardship	<p><Note for panel: for consideration, environmental stewardship has been separated from social justice (rather than one large category called "equity"—Would you prefer they are combined? Or are they sufficiently different to be more appropriately broken out as separate principles? ></p> <p>A small number of programs designed to encourage customers to invest in socially-responsible new energy technology (e.g. solar, heat pumps, electric vehicles)</p> <p>High second block rate incentivizes residential solar installation and disincentivizes residential electric vehicle charging.</p> <p>Promoting environmental stewardship and energy technology advancement is not currently identified currently in rate design policies, but is a value of the utility.</p>

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INFORMATION REQUESTS

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The Panel seeks responses from stakeholders on the following questions.

- What outcomes do you want rate design to promote?
- What opportunities for improvement do you see in the current rate structures?
- How would you prioritize the 7 (or 8) key policy goals, and why?
- What alternative rate structure options would be of interest to you and why? (for example, time of use rates or premium green power options, etc.) What data can you share that indicates the option(s) you support would support the outcomes that are important to you?