

TO David Moseley, Deputy Mayor and Ben Noble, City Budget Office Director
FROM Debra Smith, GM/CEO City Light
DATE August 20, 2019
SUBJECT Proposed legislation granting authority to offer City Light rate pilot programs

This memo provides information about proposed legislation to grant City Light authority to offer rate pilot programs in late 2019 and 2020. This ordinance, as well as a second ordinance that makes technical adjustments to BPA Passthrough rates, City of Burien rates, and public charging rates, is tentatively scheduled to be reviewed on September 12th at the final meeting of the Health, Housing, Energy and Worker Rights Committee prior to adjournment for the City annual budget deliberations. The timing is also critical to meet the ambitious timeline laid out for the 2021-2022 rate ordinance by the City Light Review Panel, the City Council and the utility's leadership.

In April of 2019, after eight months of customer and stakeholder outreach, discussion and analysis, the City Light Review Panel and the utility delivered a Rate Report that identifies policies and strategies for updating the utility's rate design. The Report identifies themes for rate redesign such as rates to support decarbonization through electrification, customer choice and transparency, and rates that address revenue stability and energy affordability issues. The Report directs City Light to redesign rates by early 2021 and commits City Light to implement rate pilot programs as a critical step to facilitate the transition to new rate policies and structures.

Electrification of transportation and other fossil fuel-powered devices is crucial in achieving the City's climate goals, maintaining customer affordability, and providing long-term revenue stability for the utility. As electrification brings new demands for energy, rates that encourage demand response will be an important tool for cost-effectively integrating new demands on our grid. Demand response uses time-based rates or other forms of financial incentives to encourage consumers to reduce or shift their electricity usage during peak periods. Demand response helps contain the cost of electric service and in the long run can alleviate the need for costly system upgrades.

Pilot programs are a way for City Light to gather data on customer behavior and preferences, as well as administrative and communication challenges which will inform the design and roll out of new rate structures. Pilot programs also help limit financial risk from untested new rate designs. Demand response rates incorporate predictions about how customers will use electricity – both how much and when. If customer behavior turns out differently than projected, the utility risks under (or over) collecting revenue.

City Light proposes to conduct pilots in two specific areas of rate design research: demand response programs to facilitate decarbonization through electrification and long-term rate affordability, and alternative low-income assistance programs to reduce the burden of electric service costs on our most vulnerable households. In cooperation with key customers and stakeholders, City Light has started development of four pilot programs identified by the Rate Report, which would be enabled by the proposed legislation.

- 1) **Low Income Pilot** to assist those customers who, despite the 60% discount offered by the Utility Discount Program (UDP), have an energy burden (electricity bill-to-income ratio) that exceeds the 6% target recommended by low-income advocates. An analysis of enrolled UDP customers shows that customers who have the highest energy burdens tend to have higher than average consumption and annual incomes of less than \$25,000. Participants would be drawn from current UDP customers, or unenrolled customers that would be otherwise eligible for UDP. The pilot will be limited to 300 participants and will run for one year (October 2019 – October 2020). Components of the pilot include a low fixed per kWh charge, full subsidization of the monthly service charge, account balance management assistance and subsidized energy efficiency improvements to the participant's residence.
- 2) **Residential Time of Day Pilot** to test incentives for electric car owners and other high-use households to reduce their consumption during the times of day that the cost of energy and delivery is high. Participants would receive a rate rebate against any electricity consumed at night, offset by a penalty for high consumption during the afternoon/evening hours when system demand is typically at its highest. This pilot would begin in early 2020 and provide insights on residential customer reaction to time of use rates, which may be offered to all customers in 2021 on an opt-in basis.
- 3) **Commercial Electrification Pilot** to test incentives for commercial applications of transportation electrification. The pilot will explore time-of-use and demand charge incentives to respond to perceived financial hurdles for high-speed charging. An initial project is planned with King County Metro for their Tukwila base, where they intend to install charging infrastructure for all-electric transit busses beginning in spring of 2020.
- 4) **Industrial Demand Response Pilot** targeted at large customers that operate industrial processes or other energy-intensive technology with the flexibility to shift loads. Participants will receive a rate incentive for agreeing to curtail their electricity use at the utility's discretion, for instance, when the grid is constrained due to power supply or cost. This pilot includes engagement with Bonneville Power Administration as well to identify when regional grid constraints exist. Coincident peak and other pricing structures will be evaluated as part of pilot design. The pilot is expected to enroll three to five of our largest customers, such as Nucor Steel, Ash Grove Cement, Ardagh Glass, Boeing and the Port of Seattle and will run for a maximum of two years.

Implementation plans are currently in development in collaboration with the City Budget Office, Law Department and key stakeholders. Implementation details, including customer identification and recruitment strategies, administrative roles, rules for participation, IT and billing support, and evaluation criteria will be shared with the City Light Review Panel, Mayor's Office and City Council prior to the launch of each rate pilot. However, in order to get these pilots underway before the end of 2019, authority needs to be granted to City Light by the City Council in ordinance before the Council's standing committees adjourn for the City budget deliberations. The Low-Income Pilot is expected to begin the Pipeline process by September 1, 2019.