

Excerpts of 2016 and 2014 Panel Letters Addressing Load and Rates

May 2016 Panel Letter on Strategic Business Plan Update

The Plan Update calls out some important changes to the way City Light is doing business that will require close attention over the next several years. Most significantly, City Light has experienced a decline in retail demand for power in each of the last four years, and the forecast rate of growth in demand for the next six years remains low. While not yet of the magnitude facing many utilities nationally, this decline in actual demand and weak rate of growth in forecast demand is a relatively new phenomenon for City Light. This means we need to start thinking differently about the future of the Utility: the foundation for that shift in thinking is set forth in this Plan Update.

...

Looking Forward: Utility of the Future

The new theme in the 2017-22 Strategic Plan Update is “the Utility of the Future.” This theme encompasses four factors that will have major implications for City Light over the next several years: (1) declining demand for power; (2) shifting customer expectations associated with technology changes; (3) an aging City Light workforce; and (4) an evolving landscape for renewable power.

Actual retail power sales, by volume, have *fallen every year since 2011*: the Utility sold 3% less retail power in 2015 than it did in 2011. The forecast load growth rate is now about the same as it was in 2014 -- 0.36% average annual growth is forecast for 2017-2022. But this forecast growth rate is half what was forecast as recently as 2012. The Utility projects it will not again sell the same volume of power it did in 2011 until sometime *after 2022*. The graph on Attachment A illustrates this situation.

What does declining retail demand and slowing load growth mean for the Utility and its ratepayers? The Utility derives revenue from two major sources: retail sales (to local residents and businesses); and sales of excess power in the wholesale market. Activity in both of these areas is putting upward pressure on electricity rates. The Utility is experiencing declining retail demand—a result of increased conservation, warmer winter weather, increasing share of multi-family housing, and deployment of more energy efficient infrastructure and equipment. This means fixed costs are spread over a lower volume of electricity sold. Additionally, prices in the wholesale market for power are lower, largely due to competition from low natural gas prices, which has resulted in lower net wholesale revenue.

This situation will become intensified if City Light continues to experience declines in demand. This will need careful tracking, as will re-examination in coming years of the Utility’s financial

and rate policies, since current policies and rates are founded, in part, on the premise of continual growth in the demand for electricity.

Given the uncertainty as to future retail demand and its core importance to the Utility's fiscal health, we are very pleased that City Light has committed to undertake a thorough review of the forecast methodology in the next two years, including but not limited to a new study of consumer electrical-use patterns.

May 2014 Letter on Strategic Business Plan Update (Which included a rate design proposal that the council ultimately rejected)

Rate Design Proposal for 2015-2016

One of the major tasks assigned to the Panel when it was established in 2010 by Council Ordinance 123256 was to review City Light's rate design. Rate design is not about the *amount* of revenue that the Utility recovers but rather, it is about *how and from whom* that revenue is collected. Rate design policy has been the focus of Panel deliberations for much of the last 18 months. The 2015-2020 Strategic Plan Update includes a proposed initiative to adjust current electric rate design policy in the next biennium, 2015-2016. The primary focus of the proposal is to increase the amount of revenue recovered through fixed charges, as opposed to variable charges, to more closely reflect the nature of the Utility's costs. To achieve this, the proposal increases base service charges and significantly increases demand charges.

The Panel (excepting one member) supports the 2015-2016 rate design proposal, although the rationale for that support differs amongst Panel members. Most Panel members agree that in order to increase the Utility's financial stability and advance the concept of customers paying more of the actual cost of their electric service, City Light should increase the amount of rate revenue generated from fixed demand and service charges. All Panel members desire to continue to send a strong price signal to customers to be efficient in their use of energy, and acknowledge there is a tension between this goal and increasing fixed cost recovery. The Panel urges the City to carefully monitor how changes in rate design impact energy use by City Light customers.

The Utility made some key adjustments to its original rate design proposals that helped secure support of Panel members, including: (1) adjusting the pricing on residential energy blocks such that the impact on residential bills will be minimal; (2) scaling back the size of demand charges for General Service customers; and (3) working to increase enrollment in the low income rate assistance program.

The Panel believes that the long-term trajectory on rate design requires more discussion: we hope and expect this will be a matter for deliberation in developing the next Strategic Plan update.

It should be acknowledged that the proposed changes will affect non-residential customers differently based upon their load profile. It will increase cost pressure on some and decrease it on others.

While supporting the proposal, the residential customer representative would prefer to postpone any increases in fixed charges for residential customers until the next Strategic Plan update, when this could be discussed as part of a longer-term strategy for residential rate design that includes consideration of changes brought about by AMI.

The non-profit energy efficiency advocate representative does not support the rate design component of the Strategic Plan. He has concerns with the strategic direction of the proposal and has agreed to articulate those concerns during any public comment period conducted in association with the Plan.