MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Mital, Simpson, Helgeson, Manning and Brown

FROM: Erin Erben, Power and Strategic Planning Manager and Adam Rue, Senior Energy Resource Analyst

DATE: May 22, 2015

SUBJECT: EWEB Partial Requirements & Stranded Investment Policy

OBJECTIVE: Board Approval – Resolution No. 1516

Background

The issue of stranded utility costs has surfaced in different forums for the utility industry. In the late 1990s and early 2000s, de-regulation took form in many utility jurisdictions. A key issue in the industry restructuring at that time was stranded cost recovery. This was one of many issues being addressed as regulators undertook different phases of restructuring the regulatory and ratemaking paradigm. The basic issue of stranded utility investment arises from the regulatory compact that a utility has an obligation (versus the option) of serving all customers within its service territory. The corresponding customer obligation is to pay for investments that a utility makes as a result of this obligation to serve. The equitable recovery of these investments is a regulatory / rate design construct distinct from the accounting perspective of asset impairment and write offs. Early concepts of electric deregulation raised the issue of whether customers should pay for stranded utility costs if they are given a choice of electric supplier, since absent a reasonable stranded cost policy, customers who depart the traditional electric service regulatory structure could end up transferring those costs onto remaining utility customers. Most regions created mechanisms for utilities to be made whole based on the regulatory compact and obligation to serve principles.

More recently, the growing trend toward distributed generation has provided an opportunity to review this issue of stranded utility cost recovery. In general, the bypass of utility services can take one of three forms including: 1) service territory transfer or sale, either negotiated or through eminent domain; 2) individual customer transfer, to be served entirely by another entity; or 3) partial requirements service, where a customer receives provision of generation services either from a third party or through self-supply. This was the basic premise of deregulation and serves as the basis for standby charges that many utilities carry in their rate portfolio.

Utility Cost Components

Utility costs are generally broken into the following categories for cost allocation and ratemaking purposes:

- Generation Costs – include both energy and capacity components.
  - Energy Costs include the energy portion of EWEB production costs and purchased power.
  - Capacity Costs relates to capacity investments less associated energy values.

- Transmission Costs - include both EWEB-owned and BPA contracted-for resources. EWEB's OATT reflects EWEB owned transmission and BPA is typically considered a customer pass-through of direct BPA costs.

- Distribution Costs - include EWEB distribution system investments, such as substations, primary and secondary distribution lines, poles and fixtures.

- Facilities Costs - refer to investments made to serve a particular customer, such as meter, service drop, and sometimes transformers.

- Customer Costs - refer to costs associated with holding a customer account, such as meter reading, billing, and customer service.

- Public Purpose Costs - are not currently defined in EWEB tariffs, but are common in the industry and include public good programs, such as low income program and medical support, renewable policy standards compliance, and sometimes conservation programs.

Where appropriate, all costs shown above include associated overhead and administrative costs.

The table below indicates how EWEB proposes to calculate the associated stranded costs for each form of service bypass.

	Power Costs (i)	***Capacity Costs (ii)***	***Transmission Costs (iii)***	***Distribution Costs (iv)***	***Facilities Costs (v)***	***Customer Costs (vi)***	***Public Purpose Costs (vii)***
Customer Transfer (exit fee)			***X***	***X***	***X***	***X***	***X***
Service Territory Transfer (exit fee)		***X***	***X***	***X***	***X***	***X***	***X***
Partial Requirements Surcharge			***X***	***X***	***X***	***X***	***X***

Policy Response

Policy to allow customers to take advantage of market opportunities, new technology, and alternative electric service providers can be good for the individual participating consumers, but

must also be balanced with the equitable cost sharing of historical costs incurred for the public good (the consumer base as a whole).

The process for pricing a customer rate or surcharge, an exit fee, or a territory transfer price is similar to the established rate making process in three key ways. First, the methodology for valuing the assets that are stranded or sold is established. A common methodology for asset valuation is the replacement cost new less depreciation ("RCNLD"). However, other methodologies do exist, such as original cost new less depreciation ("OCNLD"), market proxy transactions, and the net present value of projected future cash flows ("DCF"). It is important to note that no matter what methodology is applied (RCNLD, OCNLD, DCF, etc.) the scope of the assets that it is applied to is equally important. For example, does it apply only to transferred transmission and distribution assets (i.e. "wires" only) or does it apply to power generation plants and purchases. The majority of EWEB's current costs are presently in the form of power generation plants and purchases. In cases or service territory transfer, this could also include lost return over some specified period.

Second, the recovery method is determined (or rate design in the traditional ratemaking process). This can include lump sum payments for an exit fee or territory transfer. For partial requirements customers this would often take the form of a non-by passable surcharge, which is related to recovery of stranded investments made by the utility to serve the customers load as a part of its obligation to serve, but which have not been recovered by the customer. This includes the above-market costs of new generation resources, including qualifying facilities, standard offer contracts, and RPS assets and contracts. The assets are subject to the charge for the life of the asset or the duration of the contract. This shall be used to establish a power cost indifference amount ("PCIA") that will be incorporated into a non-by passable surcharge.

Third, EWEB must balance its established ratemaking principals (Sufficiency, Affordability, Efficiency, Cost-Basis, Equity, and Gradualism) for its customers to ensure the policy is appropriately implements. The scenarios to which the Partial Requirements & Stranded Cost Policy are as follow:

- Service Territory Transfer – in the case sale of EWEB service territory EWEB will perform a calculation of pricing related to: (a) physical utility assets, (b) contractual impacts, specifically BPA contract entitlement for power and network transmission impacts, and (c) expected future revenue, including potential growth opportunities, related to the transfer. The costs will be quantified mitigate costs or potential risks to make remaining EWEB customers.

- Customer Exit Fee – would encompass the stranded utility investments related to customer facilities, distribution facilities, and out of the money power procured on behalf of the customer. Instead of calculating monthly fixed charges, demand related capacity payments, and kilowatt hour power cost surcharges, the exit fee would require a lump sum payment.

- Partial Requirements Service – refers to customers that take power supply from a non-EWEB source, but still rely on EWEB infrastructure to move their power. This is

sometimes referred to as Standby Service. The concept of a partial requirements rate or a standby service charge is to recognize that the utility system (and some costs thereof) are always ready to back up the customer when their own supply goes off line and is reduced. When a customer operates connected to the utility grid, this happens automatically. Standby charge, or capacity reservation charge ("CRC") – is a non-time related demand charge that is applied to the kW of Standby Demand, which represents the entire reserved capacity needed for EWEB to serve the customer's load regularly served by the customers generating facility when such facility experiences experience a partial or complete outage.

Recommendation

Management recommends the Board approve Resolution No. 1516 to incorporate the language found in Attachment A into the Customer Service Policies and Procedures.

Attachment A: EWEB Proposed Customer Service Policy Language

PARTIAL REQUIREMENTS SERVICE (found in E-I)

The partial requirement service applies to customers requiring use of the Company's distribution system and facilities. This refers to customers supplying all or some portion of their load by self-generating, electric service supplies, or departing load service by another utility.

The Monthly Billing shall be the sum of the Partial Requirements Charge (Section E-V), where applicable, and the otherwise applicable rate schedule (OARS) for Residential (R-1), Small General Service (Schedule G-1), Medium General Service (Schedule G-2), Large General Service (Schedule G-3), or Very Large General Service (Schedule G-4).

This Schedule is not applicable to a customer operating generating facilities used solely for auxiliary, emergency, or standby/backup purposes to serve the customer's load during a period when EWEB's service is unavailable and when such load is isolated from the service of EWEB.

See Electric E-V, for specific rates and charges applicable for Partial Requirement customers.

PARTIAL REQUIREMENTS RATE (Found in Section E-V)

1. Definition

This schedule establishes a charge for customer's requiring use of the Company's distribution system and facilities.

2. Available

In all territory served by the company.

3. Applicability

To customers supplying all or some portion of their load by self-generating, ESS, or departing load service by another utility.

4. Exceptions

This Schedule is not applicable to a customer operating generating facilities used solely for auxiliary, emergency, or standby/backup purposes to serve the customer's load during a period when EWEB's service is unavailable and when such load is isolated from the service of EWEB.

5. Rates and Charges

The Monthly Billing shall be the sum of the Partial Requirements Charge and the otherwise applicable rate schedule (''OARS'') for Residential (R-1), Small General Service (Schedule G-1), Medium General Service (Schedule G-2), Large General Service (Schedule G-3), or Very Large General Service (Schedule G-4).

PARTIAL REQUIREMENTS CHARGES:

Dedicated Facilities Charge:
Dedicated facilities including, but not limited to, interconnection facilities or extra meters and communication lines to measure self-generation, or other sources impacting customer demand will be charged to the customer separately.

Capacity Reservation Charge:
Customers served under this Schedule are subject to applicable Capacity Reservation Charge (''CRC'') rate, in additional to their OARS. The CRC is a non-time related demand charge that is applied to the kW of Standby Demand, as defined below.

Standby Demand in kW represents the entire reserved capacity needed for EWEB to serve the customer's load regularly served by the customers generating facility, ESS, or other power provider when the generating facilities experience a partial or complete outage.

PARTIAL REQUIREMENTS RATE (Found in Section E-VI, Subsection E)

4. Partial Requirements or standby charges required for backup or standby service when the customer supply goes offline or is reduced per Section E-V of EWEB Customer Service Policies and Procedures.

RESOLUTION NO. 1516
JUNE 2015

EUGENE WATER & ELECTRIC BOARD
RESOLUTION APPROVING REVISION TO
ELECTRC UTILITY POLICIES & PROCEDURES.

WHEREAS, The Eugene Water & Electric Board (EWEB) periodically reviews, revises and updates Customer Service policies and procedures - All Utilities, Electric and Water policies for consistency, legality, correctness and to reflect actual practices evolving as continual improvement;

WHEREAS, The Customer Service policies and procedures – having been presented at the June 2, 2015 Regular Board Meeting and revised as follows:

1. Modifications to language in Policies E-I, E-V and E-VI
2. Implementation of this policy will be effective July 1, 2015.

NOW THEREFORE, BE IT RESOLVED, that the Eugene Water & Electric Board does hereby resolve to adopt the revisions of Customer Service policies and procedures - Electric policies as so revised.

DATED this 2nd day of June, 2015.

THE CITY OF EUGENE, OREGON
Acting by and through the
Eugene Water & Electric Board

_____
President

I, TARYN M. JOHNSON, the duly appointed, qualified and acting Assistant Secretary of the Eugene Water & Electric Board, do hereby certify that the above is true and exact copy of the Resolution adopted by the Board in its June 2, 2015 Regular Board Meeting.

_____
Assistant Secretary