



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Mital, Simpson, Helgeson, Manning and Brown  
FROM: Erin Erben, Power and Strategic Planning Manager, Sue Fahey, Finance Manager  
and Adam Rue, Senior Energy Resource Analyst  
DATE: August 4, 2015  
SUBJECT: EWEB Stranded Investment Policy  
OBJECTIVE: Board Action: Resolution No. 1516

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### ***Introduction***

In May 2015, Management brought a proposal to the Board to establish a stranded investment policy as well as a partial requirements rate. In response to Board direction, Management developed an alternative path forward to establish the stranded investment policy to address current business needs, and to defer the partial requirements rate discussion to a later time.

### ***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.

In the event EWEB exchanges service territory through a transfer or sale, or an individual customer departs to be served by another entity, EWEB and its customers would be stranded with unnecessary investments.

**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.

|  | <i>Power Cost (i)</i> | <i>Capacity Costs (ii)</i> | <i>Transmission Costs (iii)</i> | <i>Distribution Costs (iv)</i> | <i>Facilities Costs (v)</i> | <i>Customer Costs (vi)</i> | <i>Public Purpose Costs (vii)</i> |
|--|-----------------------|----------------------------|---------------------------------|--------------------------------|-----------------------------|----------------------------|-----------------------------------|
| <i>Customer Transfer (exit fee)</i>          |                       |                            | X                               | X                              | X                           | X                          | X                                 |
| <i>Service Territory Transfer (exit fee)</i> |                       | X                          | X                               | X                              | X                           | X                          | X                                 |

**Policy Response**

The process for pricing 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.

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 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.

### **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*

**STRANDED INVESTMENT POLICY** (found in Customer Service Policy and Procedures - All Utilities Section II. POLICIES AND PROCEDURES)

The stranded investment policy applies to service territory transfers and customers departing EWEB service territory over 30 kilowatts of demand to be served by an electric service supplier (ESS) or alternative utility. EWEB will calculate an exit fee, based on replacement cost new less depreciation for stranded utility assets that are not able to be repurposed.

The cost categories included in the exit fee for stranded costs will include customer-related investments, facilities investments, distribution system investments, transmission investments, and capacity investments.

**RESOLUTION NO. 1516  
AUGUST 2015**

**EUGENE WATER & ELECTRIC BOARD  
RESOLUTION APPROVING REVISION TO  
ELECTRIC 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 August 4, 2015 Regular Board Meeting and revised as follows:

1. Modifications to language in Policies All Utilities Section II
2. Implementation of this policy will be effective September 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 4<sup>th</sup> day of August, 2015.

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

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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 August 4, 2015 Regular Board Meeting.

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Assistant Secretary