

EUGENE WATER & ELECTRIC BOARD  
WORK SESSION  
EWEB BOARD ROOM  
OCTOBER 3, 2006  
5:30 P.M.

Commissioners present: Sandra Bishop, Mel Menegat, John Simpson, and Patrick Lanning. Commissioner Ron Farmer was excused.

Others present: Randy Berggren, John Yanov, Dick Varner, Tom Buckhouse, John Yanov, Marty Douglass, Jim Origliosso, and Krista Hince of the EWEB staff; Lynn Taylor, City of Eugene minutes recorder, and Jason Heuser, member of the public.

Vice President Menegat convened the work session of the Eugene Water & Electric Board (EWEB).

Public Affairs Manager Marty Douglass introduced Jason Heuser who had been hired to fill Libby Henry's position as EWEB's lobbyist. He said Mr. Heuser would join EWEB on October 23, 2006. He reviewed Mr. Heuser's experience as lobbyist for the City of Eugene and familiarity with EWEB.

## **TIERED RATES**

Senior Rates/Financial Analyst John Yanov provided a PowerPoint presentation entitled *Electric Tiered Rates – October 3, 2006*. He said the Board generated the topic as tiered rates had been in place for five years. He reviewed the history of tiered rates, monthly residential electric consumption and for comparative purposes a list of utilities in the northwest. He indicated that the results of the tiered rate system were consistent with design.

Commissioner Simpson asked if the inverted rate structure had successfully encouraged conservation. Mr. Yanov felt that it had but was difficult to measure because rate increases had been implemented during the same period and it was hard to distinguish between the effects of rate structure and rate increase.

Commissioner Simpson asked if the rate structure caused problems for low-income customers. General Manager Randy Berggren said he did not know if the rate structure itself had caused problems, but many low-income customers lived in poorly insulated housing and a higher rate of energy consumption along with the rate structure did have an impact.

Commissioner Simpson noted that the first tier went up to 800-kilowatt hours (KWH) and asked how that level be chosen. Mr. Yanov replied that 600 to 800 KWH was determined to be a base load for an apartment or single-family residence if customers were not water heating or space heating.

Vice President Menegat asked about the impact if EWEB returned to a flat rate. He also asked who the third tier users were during the summer. Mr. Yanov estimated the rate would be somewhat above the second tier price. He said large homes with heavy air conditioning loads were typically third tier summer users.

President Bishop stated she was not convinced that the tiered rate structure had resulted in a system-wide benefit and wanted an indepth discussion of whether the rate structure had contributed to conservation. She said if tiered rates were continued there should be an examination of how rates were structured, as it was a very blunt instrument in comparison to other utilities.

Commissioner Lanning asked what feedback had been received from the community on tiered rates. Mr. Yanov said before tiered rates were in place customer comments were 50 percent in favor of them and 50 percent opposed. He said since implementation customer comments regarded tiered rates as the cause of high bills instead of the overall rate increase. He said a familiar theme was that tiered rates penalized large families or households, particular those that were part of the all-electric Gold Medallion program in the 1990s. Public Affairs Manager Marty Douglass said Mr. Yanov's remarks were derived from a cursory evaluation of tiered rates conducted about four years ago. He said experience since that time was that there were few comments about tiered rates, but many comments in the winter about high bills. He thought the issue of tiered rates was no longer significant from customers' perspectives.

Commissioner Lanning asked if research had demonstrated that tiered rate systems were effective. Mr. Berggren said that staff could conduct more research but it would be difficult to determine with any degree of accuracy the impact of price elasticity. He said the concept of tiered rates assumed that the higher rate would have a conscious impact on the consuming habits of customers but it would be hard to measure the extent of that impact, particularly when a 36 percent rate action was simultaneously implemented. He said less than five percent of the customer base participated in the third tier. Mr. Yanov added it was hard to answer Commissioner Lanning's question empirically as there were so many variables and little research or data was available nationally.

President Bishop commented that when the tiered structure was put in place 78 percent of residential units in Eugene were electrically heated. She asked what the current percentage was. Mr. Yanov estimated that the current number was between 68 and 70 percent.

President Bishop related that a major complaint about the tiered structure was from long-term EWEB customers with all-electric homes. She said many of those customers switched to gas heat and she would be interested in data on the number of units that were electrically heated.

Commissioner Lanning said it would also be helpful to know the percentage of electrically heated units in new construction and whether that differed from other communities without tiered rates, to the extent that was readily available.

Commissioner Simpson observed that people still needed to stay warm in the winter and if EWEB's rate structure were price prohibitive people would fuel switch if possible. He said heating with natural gas was more efficient than heating with electricity; reducing electrical consumption in a coal-fired region would have environmental benefits but in a primarily hydro region higher consumption of natural gas would have a detrimental effect.

Commissioner Simpson remarked that some utilities had a five-tiered system and perhaps that type of structure would help lessen the impact on large families and large homes with a less dramatic jump between tiers and allow people to better manage their bills. He added that wind power was a flat rate that was lower than the third tier hydro rate.

President Bishop expressed concern about the impact of tiered rates on customers with large families living in large homes. She said the per capita consumption of electricity was less for those customers than in most single-family homes and they were the hardest hit by tiered rates. She asked if other utilities with tiered rates had a mechanism to catch and support those types of unusual large families. She suggested a fourth tier or "lifeline" rate for those hardest hit. Mr. Yanov said the issue was one of the Board's basic philosophy about setting rates and a lifeline rate meant that some customers were being charged less than the cost of service or subsidized. He said granting that for one class of customer established a precedent and used the example of a large industrial customer that was experiencing financial difficulties requesting relief because EWEB had already provided assistance to one class. He said that the Board's philosophy had been to keep rates as low as possible for all customers.

President Bishop asked if there was a mechanism for ascertaining per capita usage, such as "real time" metering. Mr. Berggren said that staff could research that but making individual circumstance exceptions on the basis of square footage and number of people in a house would result in a rate structure that was a nightmare to administer. He said the Board could either accept the social inequities of a tiered rate structure or believe philosophically in a rate structure to support various programs such as low-income programs. He preferred a low-income program that provided relief under the existing rate structure. Mr. Yanov added that the type of demographics necessary to administer a rate structure such as President Bishop had suggested were not collected on EWEB customers.

President Bishop agreed that a special rate structure was not feasible but reiterated her request for information about real time metering or time of use pricing. Mr. Berggren replied that such an approach would take seven to ten years to fully implement, including a usable rate design, support services and customer education. Mr. Yanov commented that within a year EWEB would need to make a determination about "smart metering."

Commissioner Simpson said if it was EWEB's mission to offer electric service to residents of Eugene at the lowest rates practical, tiered rates did not directly accomplish that. He felt a strong disconnect not knowing if tiered rates created conservation. General Manager Randy Berggren responded that he felt tiered rates did encourage conservation, but the extent of that impact could not be measured. He felt that the Board's mission statement was somewhat broader and it could be argued that tiered rates were the right strategic approach to conservation independent a measurable impact. He felt there were long-term benefits to any effort that encouraged conservation.

Commissioner Simpson asked if EWEB was charged inverted tiered rates by Bonneville Power Administration (BPA). Mr. Yanov said inverted tiered rates were not currently charged but he anticipated the next contract would include tiered rates based on the pricing of old versus new resources.

Commissioner Lanning observed there did not appear to be strong evidence through research to demonstrate that it would be worth investing in the complexity of adding more tiers. He said the Board considered the cost of administering tiered rates when the structure was first put in place and he would need to see conclusive evidence about cost effectiveness continuing in that direction. Mr. Berggren said the Board should move away from tiered rates if it did not support that approach instead of trying to redesign the structure. He said staff could explore other rate structures if the Board wished. Mr. Yanov noted that a tiered rate structure was used by all of the largest utilities on the list of comparable northwest utilities, including Seattle.

President Bishop stated that there did not appear to be any interest in continuing the discussion of tiered rates. She personally did not support tiered rates as they were based on the assumption that they would lead to conservation but that could not be documented.

Commissioner Lanning commented he would be willing to have further discussion if information was available to help the Board with a decision, but none was.

President Bishop adjourned the meeting at 6:20 p.m.

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Assistant Secretary

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President