



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD  
CORPORATE SERVICES DIVISION

*Rely on us.*

TO: Commissioners Brown, Cunningham, Cassidy, Ernst, and Farmer  
FROM: Patty Boyle, Fiscal Services Supervisor  
DATE: January 25, 2010  
SUBJECT: Update on May Rate Proposal

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## **Issue**

The Board will address proposals to increase both water and electric rates in the upcoming weeks. This memo and work session item is presented to give an update on the upcoming materials and discussion.

## **Background**

As part of the Board's Financial and Strategic Planning cycles, staff has presented both the long-term financial plans and 2010 Budget with assumed rate increases. In the fall, and as approved in December, the 2010 budget assumes a general rate increase of 2% for the electric utility and 7% for the water utility. The 2010 budget is the basis for EWEB's revenue requirement, a key component of the rate-making Cost of Service Analysis (COSA).

## **Discussion**

Since adoption of the 2010 budget and resulting revenue requirement, staff have been conducting cost of service analysis to appropriately allocate the cost of operating the utility among the rate classes and designing rates that will result in the collection of sufficient revenues. EWEB's Cost of Service methodology uses standard utility costing procedures which set rates based on both the amount of power or water used and the consumption pattern.

Although there will likely be some small changes between this memo and the final release of the rate proposals, it's unlikely the overall proposed rate change will be different. Overall, we will be proposing an overall increase to electric rates of 1.9% and 7.3% to water rates. The tables below show each adjustment by customer class.

## Electric Utility

Customer Class	Proposed Rate Increase
Residential	2.5%
Small General Service	7.3%
Medium General Service	1.3%
Large General Service	0.7%
University of Oregon	-5.0%
Flakeboard	22.6%
Street Lighting	1.1%
Private Lighting	-0.9%

From the table you may note that the Small General Service category has a seemingly large rate increase. Three things contribute to this result.

- In 2009 while there was no overall need for a rate increase, this particular class would have received a 4.5% increase. The 2010 rate cycle carried that need forward.
- The 2010 power cost component has increased and based on forecast demand, this customer class is picking up a larger share of those costs.
- The November 2009 abbreviated methodology to match BPA rates resulted in a lower cost increase to this class. The complete COSA methodology aligns all costs.

Also, the contract customer Flakeboard will receive a large rate increase. This is predominately driven by a mutually agreed upon change in the rate methodology. This customer has requested we calculate their base rate assuming we have an 85% of average water year rather than an average water year. In both cases, contract customer total charges are aligned with actual the actual water year. This is simply a matter of paying higher base rates with a likely rebate based on actual water rather than lower base rates and a paying an adjustment in years where water is below average.

Comparatively, this is a rather small overall rate increase. This proposed increase positions the Electric Utility to take on financial challenges in the next few years. Recall that the most recent update of the long-term forecast anticipates deficits in the next 3-4 years in spite of annual modest rate increases. The wholesale power market remains soft and the utility is committed to completing several new projects as well as bring on acquired generating facilities and purchased power contracts.

## Water Utility

Customer Class	Proposed Rate Increase
Residential	5.2%
General Service – Inside City	12.7%
General Service – Outside City	8.2%
Water Districts	0%
Firelines	7.5%
Elevation Zones	0%

In the case of the water utility, the residential customer class calculation results in a smaller increase than the overall increase while the general service class is higher. This is the result of a comparatively smaller capital expenditure in 2010 than in 2009. The residential class is allocated a greater proportion of capital costs and therefore when those go down, they receive a disproportionate share of the benefit.

Staff is also working to update the comparative rates analysis. Although that work is still in process it appears that our ranking among comparator cities (including bedroom communities for water) is largely unchanged from November of 2009. Below are preliminary results.

	Electric			Water		
	July 2009	Nov. 2009	Jan. 2010	July 2009	Nov. 2009	Jan. 2010
Res. Avg.	5 <sup>th</sup>	6 <sup>th</sup>	5 <sup>th</sup>	2 <sup>nd</sup>	4 <sup>th</sup>	4 <sup>th</sup>
Medium GS	3 <sup>rd</sup>	7 <sup>th</sup>	7 <sup>th</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	4 <sup>th</sup>
Large GS	4 <sup>th</sup>	6 <sup>th</sup>	6 <sup>th</sup>	4 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>

### Recommendation/Suggested Motion

No action is requested at this time. Staff will return with complete presentations for the public hearings scheduled on February 16 and March 16 2010.

If there is any information or analysis the Board would find helpful in taking action on rates, please let me know. I can be reached at [patty.boyle@eweb.org](mailto:patty.boyle@eweb.org) or 541-685-7406