



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

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

FROM: Frank Lawson, Power & Strategic Planning Manager (AIC); Erin Erben, Power & Strategic Planning Manager; Adam Rue, Energy Resource Analyst

DATE: August 22, 2014

SUBJECT: Electric Rate Design Strategy Continuance

OBJECTIVE: Provide background on previously recommended rate design strategy in advance of October rate proposal

Issue

The purpose of this memorandum is to provide an update to Board members as to the rate design strategy set forth last year. We will use this strategy to develop the rate design details for the October 7th Board Meeting, and the rate case proposal for December approval. Since the 2014 rate proposal, the strategic plan reinforced this strategy through adoption of the second business strategy of the 2014 Strategic Plan Update.

For 2015, EWEB is recommending that the full impact of any increased revenue requirement, which is based on budget, Long-Term Financial Plan (LTFP), and Cost of Service Allocation (COSA) assumptions, be included in the basic charges. We will also move toward further tier flattening and/or the consolidation of tiers where possible, subject to potential bill impact constraints.

Background & Discussion

The present framework for the rate design strategy was initially laid out in a policy paper in March, 2013. The strategy identified six ratemaking goals including sufficiency, affordability, efficiency, cost-basis, equity, and gradualism. In the fall of last year, several key issues were identified that EWEB and the utility industry manage through appropriate pricing, including the following.

- Revenue stability – there is currently not a direct link between EWEB embedded or marginal cost and prices (or rates to which it charges customers), which leaves EWEB at risk of not recovering its costs.
- New loads (such as electric vehicles) – the current pricing structure provides inefficient price signals to potential new loads. This could shape how the new loads impact the electric system. For example, if EWEB move towards time of use pricing to better align costs and rates, then the utility can incent customer to charge in off- peak hours and not contribute to constrained periods on- the system.
- Impacts of distributed generation (DG) – as DG becomes more cost effective there is a

potential to have an increasing impact on the utility. If the pricing does not accurately align with costs, then the impact of distributed generation can become embedded subsidies. On the other hand, efficient pricing can lead to optimal levels of DG and overall benefits to the system.

- Sustainable conservation - to the extent electric pricing more accurately matches cost, EWEB will be better able to sustain and carry on its conservation programs.

Based on these considerations, and the six ratemaking goals, EWEB management recommended that the electric utility move toward better aligning rates with underlying costs, based on a three year transition period. In order to maintain the principal of gradualism, EWEB identified usage brackets that represent the vast majority of its customers and proposed to limit bill impacts within those brackets to 2 times the overall class average. Accordingly, the following plan was developed. As before EWEB will consider and present low income customer impacts in its proposal.

Year 1 Transition (2014)

In the first year EWEB began implementing the strategy of increased the basic charge. For example, EWEB increased the Residential Basic Charge by \$2.35, from \$11.15 to \$13.50, and flattening the increasing block tiers by increasing the first tier by 9%, no change to second tier and 1% reduction to the third tier.

Year 2 Transition (2015)

In the second year EWEB is recommending to continue down the same path by increasing the basic charge. We will also move toward further tier flattening by removing the third tier (which represents roughly 5% of customer usage) and modifying the other two tiers. This will maintain a modest price differential between what has been historical viewed as baseline, first tier usage higher usage.

Year 3 Transition (2016)

In the third year, EWEB expects to arrive at a COSA supported basic charge amount and a complete flattening of the energy usage tiers. As an ongoing process we will review the impacts of the rate design changes on energy consumption and peak demand. We are currently engaged in other pilot activities (such as time of use rate pilot) than may guide future offerings and strategies.

Recommendation

EWEB staff is pleased to receive any feedback for consideration in developing the Electric Rate Design details for presentation to the Board at the October 7th meeting. If the Board has questions or concerns with the strategy, please contact staff in advance of the next Board meeting.

Further Information

If you have any questions or wish to make comments or suggestions on the information provided in this memorandum, please contact Erin Erben at Erin.Erben@eweb.org or Frank Lawson at frank.lawson@eweb.org.