



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Helgeson, Brown, Mital, Simpson and Carlson
FROM: Jeannine Parisi, Community and Local Government Relations; Monica Shovlin, Communications, Research and Marketing Supervisor.
DATE: August 1, 2017
SUBJECT: Electric Pricing Redesign Committee Update
OBJECTIVE: Information Only

Issue

In February, Management proposed conducting a comprehensive review of electric pricing reform options with the assistance of a customer committee. The Board agreed to a basic scope of work and committee selection process at this meeting. This is a progress update on the ad hoc Pricing Committee's work.

Background

Until recently, electric utilities have relied almost entirely on consumption-based charges where the more electricity used, the higher the bill. Over time, additional flat fees were added to the bill to begin to recover some of the fixed costs of providing service to each customer. Even so, these 'facility' or 'basic' charges were a small portion of the bill, typically \$5-\$10 per month.

Overall electricity use is declining, despite population growth. Contributing factors include more efficient building systems and appliances, fuel-switching to gas and renewable energy, and loss of large industrial load. Weather, the predominant driver of residential electricity demand, is more erratic, creating fluctuations (and deficits) in revenues. At the same time, the cost to maintain and modernize an aging electric infrastructure is increasing.

EWEB has begun to more closely align its pricing to reflect the true costs of doing business, raising the basic charge on residential bills while reducing volumetric charges. While the approach is revenue neutral to EWEB, such changes impact customers differently. Questions of equity, commitment to energy conservation, and impacts to limited income customers were some of the concerns raised under a 2015 proposal to raise EWEB's basic charge to \$30/month.

Before pursuing further pricing reforms, the Board requested Management to test pricing options with customers to determine which solutions, if any, would garner more acceptance. A customer committee was formed to enable a full discussion about the different pricing options, and the values, preferences and tradeoffs in play. The committee would also provide independent advice on the rate of change for pricing reform implementation. Management also proposed supplementing the committee's input with other customer research, such as surveys or focus groups and an open house.

Discussion

After the February Board discussion, committee recruitment began and a facilitator was hired to support the meeting process.

Ad Hoc Pricing Committee Membership

Name	Relevant Background or Interests	Appointed By
Steve Jole	HACSA Energy Program Mgr	John Brown
Keith Appleby	Limited Income/Equity	Steve Mital
Mary Walston	4-J School Board/Former IERP member	Sonya Carlson
Doug Campoli	Arcimoto Chief Financial Officer	John Simpson
Rick Johnson	Communications	Dick Helgeson
Catherine Roner-Reiter	UO Law Student	Staff
Gary Rayer	PV Customer/former city councilor	Staff
Beth Goodman	Eco Northwest Planner	Staff

*Staff appointee to represent senior/fixed income customer segment resigned after first meeting.

The committee met five times, with the first meeting providing context for the committee's work:

- The changing electric utility landscape is straining our long-term financial stability, and
- Pricing redesign is one of several strategies underway to respond to these changes.

While there is no perfect pricing solution, an ideal default pricing design would meet these goals:

- Better align pricing with the true cost of doing business
- Promote equity by reducing subsidies between customers
- Be transparent and simple for customers to understand
- Facilitate customer fuel choices and usage decisions (e.g. solar, electric vehicles)
- Provide financial sustainability and prepare the utility for the future

The main pricing reforms discussed were removing tiers, increasing the basic charge to recover all customer costs, and developing a residential demand charge to replace the volumetric delivery charge. Staff emphasized that pricing redesign is revenue-neutral to the utility, but such structural changes have positive and negative financial impacts across different customer groups.

Over the next several meetings, the committee helped evaluate redesign options using four residential customer personas (differentiated by average monthly electricity usage) to test the bill impacts to different customer types:

1. *Ed the Energy Expert* – couple in high efficiency home (475 kWh with natural gas and solar)
2. *Thrifty Thelma* – single, fixed income all-electric apartment dweller (900 kWh)
3. *The EUG* – typical family of four, all electric home (1700 kWh)
4. *Super Users* – students/young adults in large, older rental house (2600 kWh)

At the fourth meeting, Management shared a general philosophy for pricing redesign stemming from a few fundamental economic principles:

- Electricity is a necessary product for the good of society and is provided most efficiently via a natural monopoly. As the provider of a product without market competition, EWEB has an obligation to serve all customers equitably, and be ready to meet their highest demand.
- Trends including more self-generation, fuel-switching and greater efficiency are leading to fewer customers sharing the costs to operate and maintain a system that is built for maximum demand. This scenario risks fracturing the social pact where electricity is provided to all customers in the most equitable and cost-efficient way.

Management's restructuring preferences were presented as follows:

1. Customer-related costs are recovered in a fixed charge
2. Generation and energy-related costs remain variable to ensure EWEB makes wise investment decisions
3. Grid access costs are shared by all users via a capacity and/or a time-based cost recovery approach
4. Social equity considerations are addressed directly through programs, not pricing.

At the last meeting, six redesign scenarios, plus the current residential pricing scheme, were presented for evaluation. The panel ranked each scenario according to how well it met the utility's pricing redesign goals, recognizing that all options had tradeoffs among the goals. Analysis of the responses is now underway (and one member's input is outstanding). As a general observation, the committee favored less disruptive solutions until we can offer more dynamic, voluntary options, such as Time of Use pricing, so pricing reform offers a value proposition to our customers.

Recommended Next Steps

Management will be drafting a preliminary residential pricing recommendation, as well as an implementation schedule, consistent with the feedback received from the committee. Additional opportunities for customer input is helpful to gather broader community feedback on acceptance/understanding, preferences and tradeoffs and messaging. Some planned activities to refine the preliminary recommendation include:

- Customer Open House: Tentatively scheduled September 20
- City Club Presentation: Friday, October 13

The ad hoc committee will be invited to review a refined pricing recommendation following these two outreach efforts in preparation for the November Board meeting. For message clarity around the affordability initiative and its impact on 2018 prices, it is anticipated that any redesign changes the Board wishes to pursue would not occur until 2019. This timeline would also allow staff to conduct additional customer research, such as focus groups, if desired.

Requested Board Action

None at this time.