



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson
FROM: Susan Ackerman, Chief Energy Officer; Adam Rue, Senior Financial Analyst
DATE: July 10, 2018
SUBJECT: Residential Pricing Tiers
OBJECTIVE: Direction

Issue

Management requests Board direction to collapse the residential electric tiered rate schedule for the 2019 electric rate proposal into a uniform rate for all usage.

Background

In 2017, EWEB embarked on a comprehensive review of residential pricing structures with the assistance of a Customer Pricing Committee. The committee held a series of in-depth discussions on different pricing scenarios in order to provide thoughtful, independent advice to staff on values, preferences and reasonable tradeoffs among different options. The Board received an update on this work last August.

In April 2018, Management shared the committee's findings and preliminary staff recommendations, framed by the following key take-aways:

- Electric pricing redesign is hotly debated and complex with no perfect solution; all options involve trade-offs among utility pricing principals.
- While the redesign options studied were revenue neutral to the utility, these changes have positive and negative financial impacts across different customer groups.
- Pricing reform carries a high risk of public misunderstanding and elevated customer concerns about bill impacts to certain customer classes and/or consumption behavior.
- EWEB has made progress in re-aligning electric pricing to mitigate some of the risks to long-term financial stability due to fundamental changes in the utility industry.

In concurrence with the Customer Pricing Committee, Management recommended one of the least disruptive options considered: eliminating tiers (the higher price for consumption above 800 kWh/month). Moving to a flat electric price structure:

- Aligns EWEB's pricing with the true cost of doing business. EWEB does not pay more for this power so there is no cost-justification for the pricing tier.
- Reduces subsidization among customer classes. Because most of our revenues are based on volumetric consumption, while our cost of service is largely fixed, higher consumption customers pay more than their fair share for electric services in a tiered rate structure.

- Stabilizes bills year-round for customers while making utility revenues less sensitive to weather extremes. As an example, a cold snap in Q4 of 2013 generated \$32.4 million in retail revenue, while a mild winter in 2014 produced retail revenues of \$28.2 million in the same time period¹.
- Simplifies the bill for improved customer understanding and streamlines internal operations.

The notion that tiered rate structures encourage conservation was also discussed. Management suggested that an invisible tier set at a threshold where over 60% of customers cross into the higher price during the winter tended to act more as a ‘heating penalty’ than a conservation incentive. Tiered rates could also have unintended consequences by making natural gas heat more attractive to consumers and electric cars less so.

Discussion

Removing the pricing tier while making the change revenue neutral requires EWEB to increase the price for all residential consumption by about 0.5 cents/kWh. On a yearly average, this change generally increases bills for a majority of residential customers by a few dollars a month, a range that the customer committee felt was reasonable. Note that a majority of EWEB customers use over 800 kWh during the winter months. These customers would see both positive and negative bill financial impacts depending on the month and experience less seasonal bill volatility.

Management shared that most committee members were also open to gradually raising the basic charge to a level that collected all customer-related costs, particularly if such changes were coupled with value-added services. While some Board members were supportive of looking at the basic charge in the future, the general direction given was to develop the 2019 budget and rates proposal without residential pricing tiers. The Board requested to review a draft communication plan to ensure that customers are made aware of reasoning behind the proposed changes and the potential bill impacts before the changes go into effect. Key messages and proposed outreach tactics will be presented at the meeting.

TBL Assessment

Updated information on bill impacts by customer class and season will be provided at the meeting, as well as information about how a flat rate structure impacts the return on investment for conservation measures and residential solar installations.

Recommendation

Collapsing tiers is an incremental approach to pricing redesign in support of the utility’s long-term financial stability while simplifying bills and offering modest operational efficiencies. Because this change impacts customer bills, Management recommends that such a change be made independent from other pricing changes for clear customer communication.

Requested Board Action

Approval to proceed with 2019 rate proposal development that includes changes to the residential pricing tiers and feedback on the draft communication plan.

¹ The Q4 2013 was 2,008 heating degree days (95th percentile) vs. Q4 2014 of 1,404 (1st percentile). At current forward prices for Q4 the impact is roughly \$1.5 million as compared to the 2013/14 season’s \$4.2 million year over year impact.