



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

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

FROM: Susan Ackerman, Chief Energy Officer
Joe Harwood, Communications Specialist
Adam Rue, Interim Fiscal Services Supervisor

DATE: September 4, 2018

SUBJECT: Residential Electric Pricing Tiers

OBJECTIVE: Direction

Issue

Whether EWEB should modify the electric residential pricing design to include only a single consumption-based energy charge (tier).

Background

In 2017, EWEB embarked on a comprehensive review of electric residential pricing structures with the assistance of a Customer Pricing Committee. The committee, which included both Commissioner and staff appointed citizens, 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 its first update on this work in August 2017.

In May and July 2018, EWEB management shared the committee's findings and preliminary staff recommendations. The recommendation to eliminate tiered pricing for residential electric customers was consistent with the Customer Pricing Committee findings and meets the strategic, statutory, and policy requirements of EWEB.

Discussion

EWEB's present electric residential rate structure is sufficient to cover our costs, and the proposed adjustments are not designed to increase overall utility revenue. However, removing the higher pricing tier while making the change revenue-neutral requires EWEB to create a single consumption-based energy rate. A single energy rate (\$/kWh) will be slightly higher than the present rate charged below 800 kWh's consumed, and slightly lower than the rate charged for consumption over 800 kWh. Under a single energy rate, it will remain the case that the more a customer uses, the more they are charged.

Consolidating the energy charge of residential electric pricing to a single consumption-based energy rate achieves the following objectives:

- Reduces an artificial barrier to the “*efficient electrification*” of transportation, and space/water heating presently served by fossil-fuel based forms of energy. It is important for EWEB to be competitive with other energy options to facilitate the adoption of electric vehicles, and the use of efficient heat pumps for water and space heating.
- Reduces subsidization between customers. Because most revenue is based on volumetric consumption, while our cost of service is largely fixed, higher consumption customers pay more than their cost share for electric services in a tiered rate 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 a progressively higher pricing tier. This will also reduce future barriers to the development of distributed generation.
- Stabilizes bills year-round for customers while making utility revenues less sensitive to weather extremes. Simplifies the bill for improved customer understanding and streamlines internal operations.

At the Board’s April 2018 meeting, EWEB staff shared that on a yearly average, eliminating a tiered energy change will increase bills for residential customers when consumption is below 800 kWh/month by a few dollars a month, a range that the customer committee felt was reasonable. Note that approximately 72% of EWEB customers use over 750 kWh’s during the winter months, and most EWEB customers will see both positive and negative bill impacts (depending on the month) resulting in less seasonal bill volatility.

The concept that tiered rate structures encourage conservation was also discussed with the committee, which concluded that direct programmatic incentives were more effective than after-the-fact pricing signals. An invisible tier set at a threshold where over 60% of customers cross into the higher price during the winter tends to act more as an electric ‘heating penalty’ than a conservation incentive. Tiered rates can also have unintended consequences by making natural gas heat more economically attractive to consumers and electric cars less so, impacts that could make community carbon reduction goals more difficult to achieve.

In May, while some Board members were supportive of looking at the basic charge in the future, the general direction given was to explore and refine 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 were presented at the July 2018 meeting.

Recommendation

Collapsing residential pricing tiers is an incremental approach to pricing redesign that supports the utility’s strategic plan, including simplification, efficiency and electrification, along with meeting statutory and policy requirements. 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

Management is not requesting Board action at this time. However, Management requests that the Board reach consensus on and provide direction to develop a pricing proposal that collapses the residential electric tiered rate schedule into a single rate for all usage and bring that proposal to the

Board for inclusion in the 2019 electric rate proposal for Board approval in December.