



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson
FROM: Rene Gonzalez, Customer Solutions Manager; Jeannine Parisi, Customer Relationship Manager.
DATE: September 24, 2018
SUBJECT: EWEB Development Policy
OBJECTIVE: Information and Direction

Issue

EWEB is seeking direction from the Board on a number of staff proposals intended to make it easier to do business with EWEB, support economic development, facilitate efficient electrification, improve community emergency preparedness, and address the utility cost burden to customers.

Background

There are several initiatives underway across the utility related to EWEB's overarching philosophy about its role in economic development and the affordability of our products and services. Some efforts started a while back while others are in the planning phase.

For example, water and electric distribution teams have made a concerted effort to streamline and update their processes when working with developers. This work included the Board adoption of flat rate pricing for water infrastructure (September 2017) and a number of process changes on the electric side. For instance, when customers need new or expanded service, we now provide a high level estimate of their EWEB service costs in advance of entering (and paying) for the design agreement. This allows customers to assess and plan their project without delay and/or expense. A summary of these efforts was previously shared with the Board and is attached for reference.

In June, EWEB co-hosted a meeting with a group of residential developers to share the most recent process changes undertaken and learn about other areas that could improve service delivery. Several initiatives are being explored as a result of this conversation and are described later in this document.

Another effort originated from a cross-functional team convened to explore whether EWEB policies sufficiently address the potential risks posed by emerging data-intensive industries, like crypto currency mining. While not a focal point of discussion, the team noted that EWEB's stance on serving new electric load might need to be refreshed to align with our strategic plan and optimize existing investments. Two projects are underway in response to this team's observations.

Additionally, EWEB has completed an extensive revision of the Customer Service Policy. An issue that was deferred during this discussion was when customers (most often, developers) pay for

needed infrastructure, and when EWEB, through its rate base and SDC charges, bears the cost of such infrastructure. At the July meeting, Management provided an overview of the Water and Electric interpretation of current Customer Service Policies (CSP) as they relate to customer /developer costs for Board feedback.

EWEB's general policy has been to insulate the general customer base from shouldering the risks and costs to serve new development. While some utilities pay a portion of infrastructure costs necessary for new service and recoup that investment over time through the additional revenue received, EWEB requires the developer to pay all costs up-front. At the July meeting, most Board members indicated interest in considering some targeted exceptions to help incentivize electrification and facilitate economic development, as well as to support community-based projects that align with our strategic plan, such as supporting limited-income development opportunities.

Discussion

Work in progress that explores some exceptions to EWEB's development policies can be organized under four main categories: 1) Downtown Network, 2) Business Growth and Retention Program, and 3) Reducing the Utility Cost Burden.

Downtown Network

Eugene's urban core is served via the downtown secondary network, which has specialized equipment and installation standards. While downtown customers benefit from the exceptional reliability and power quality provided by the network, the upfront costs are typically higher than a similar extension cost outside the network. The unexpected costs of electric service extension can be a barrier to downtown development, particularly if high reliability is not a business decision driver.

To avoid cost surprises, staff generated a map to share with potential developers showing the boundaries of the downtown network and encouraging developers to reach out to EWEB early to learn about the specialized equipment requirements. Engineering staff often attend City Planning pre-development meetings involving projects in the network to proactively engage developers.

While early intervention about downtown network service requirements is helpful, it doesn't address the financial barriers. Due to specialized equipment requirements in the network, only two transformer sizes are available, making it harder to scale equipment to the projected load. Developers also have to ensure redundancy in the network, meaning that if a new transformer is needed, a second one is required in case the first one fails. These large transformers have to be housed in either an underground vault or in a utility room in the new building, another potentially significant cost.

These downtown network requirements can cause unexpectedly high infrastructure expense for excess capacity the developer can't fully utilize. While one developer will bear the total costs for this capacity, the next developer to break ground can take advantage of the excess capacity and avoid these transformer costs. As a result, the costs to develop in downtown network are location dependent, vary widely, and difficult to predict.

The downtown secondary network interconnects with other existing network customers, so all customers benefit from exceptional reliability when more redundancy is built. Given this wider downtown customer benefit, Management believes it is reasonable for EWEB to share in some of the upfront costs for new load in the network. This cost-share would not apply to 'spot network'

connections that only benefit a single development, or to the developers' substructure costs (vaults, service laterals, etc.)

The proposed change has the following benefits:

- More consistency and fairness: all customers adding new load to the network will pay a proportional share of the capacity costs and redundancy versus the hit or miss situation that exists now depending on available capacity at the specific development location;
- Reduces financial barriers:
 - o this proposal supports new downtown development with a narrowly defined EWEB contribution limited to reliability enhancements that benefit other network customers;
 - o enables EWEB to recover its upfront investment as other customers connect to that part of the network and pay their proportional connection charge;
- Supports electrification/carbon reduction efforts: this proposal mitigates the inherent incentive for developers to use natural gas as a way to keep their electric load as small as possible and avoid higher service connection fees;
- Ease of administration: establishes a replicable, transparent and consistent methodology.

Business Growth and Retention Program

In response to the economic recession and a desire for EWEB to participate more actively in promoting economic development in our service territory, the Board in 2012 adopted a *Business Growth and Retention Loan Program*, with an amendment to the loan amount in 2014. The loan program was established to assist customers who want to locate or expand their businesses in the EWEB territory with the upfront costs of utility services with a low interest loan and on-bill payment. Since established, about a half dozen business customers have taken advantage of the program.

Around the same time, the Board also approved the *Business Growth and Retention Price Rider*. This program targeted new and expanding businesses adding 200 kW to 10,000 kW of new or incremental load with incentive pricing. Qualifying customers enter into a three-year contract where a bi-annual credit is calculated based on the difference between wholesale and retail market prices, with diminishing benefit to the customer over time. There are no active accounts using the 'rider' at this time, but three customers have participated in the past.

A staff team is reviewing both programs with an eye towards process efficiencies and alignment with our strategic plan and priorities. Early observations are that the program has ongoing value and a solid policy framework. However, some potential areas for change include more objective standards for program eligibility, increased transparency and accessibility to the programs, marketing for improved participation, and defined metrics for success.

To support economic development, staff are exploring creation of a 'heat map' that shows where there is available capacity in our electric system. Today, there is no simple way for staff to respond to inquiries from potential customers or commercial realtors looking to locate new large loads. The heat map would provide broad geographic parameters where capacity is available or limited in the system. This would allow us to quickly respond to inquiries and redirect people to other potential locations if the first area has infrastructure constraints that would be expensive for the developer to overcome. The intention is to provide more responsive customer service, and seek to optimize our existing infrastructure investments when looking at economic development opportunities.

Reducing Utility Cost Burden

The June meeting with representatives from the residential development community reinforced the value of the process improvements completed, validated some work already underway (e.g., reducing the financial barriers in the downtown network) and offered new ideas for consideration. The rising costs of System Development Charges (SDCs) and how the methodology fails to scale to smaller housing types was a major point of emphasis. While this discussion mainly implicated City SDC fees, Management did take up the idea of a reduced water SDC for tiny homes and additional/secondary dwelling units (ADUs) to align with City efforts to encourage more affordable, in-fill housing. It should be noted that EWEB policy already allows for a different calculation for separately metered multi-family housing units. A consultant will be used to ensure that any new water SDC for such housing types meets statutory and legal requirements before taking a proposal to the Board.

We will also look at options to reinstitute EWEB's previous practice of offsetting water SDCs for low income housing projects through either a grant fund or alternatively, a new Board-adopted policy that exempts qualifying low income development from the SDC charge. Outside of energy efficiency and newly developed 'smart electrification' incentives, there is no companion contribution from the electric utility similar to the SDC grant program. However, Management is in the process of establishing a program encompassing both water and electric contributions to support affordable housing and other community projects that benefit disadvantaged and/or limited-income customers (e.g. projects with partners like St. Vincent De Paul, Willamette Family, Homes for Good, and others).

Another issue that was raised during the meeting was EWEB's requirement for financial guarantees, typically through a performance bond. The water utility is required by state statute to secure financial guarantees for new subdivision projects so that the utility can install water service should the private developer fail to do so. No such requirement exists for the electric utility. In response to concerns raised by developers, staff re-examined each utility's practices. The water utility has already effectively reduced the typical financial guarantee amount by about 20% through its adoption of flat rates for water distribution infrastructure, so no further changes are recommended.

To reduce the administrative burden to EWEB and streamline the process for customers, Management recommends setting a minimum cost for electric installations requiring a financial guarantee (most service extension projects are under \$10,000). This higher threshold would eliminate the need for performance bonds for the majority of projects, particularly residential housing, with minimal risk exposure as meeting all construction standards and passing inspection will remain a requirement for EWEB service.

TBL Assessment

No formal TBL assessment has been conducted for these proposals to date.

Recommendation/Requested Board Action

Most of these proposals require policy action by the Board. Management requests direction to bring policy amendments to the Board for consideration at a future meeting, and/or feedback on the proposals so they can be further refined.

EWEB Distribution Services Process Improvements

OBJECTIVES

Speed of Delivery



Streamlined work flow;
dedicated staff resources for
faster response

Ease of Business



More self-service options;
electronic forms

Predictability



Better project tracking for
accurate timeframes;
high level cost estimates at
front-end

IMPROVEMENTS COMPLETED

	<ul style="list-style-type: none"> ✓ Extension agreements and billing sent electronically to speed up payment process from one week to one day. ✓ Design standards available on-line for typical customer-side work.
	<ul style="list-style-type: none"> ✓ No more work orders required for permanent service requests. ✓ Created Planner position as central point of contact for more immediate response to customer questions and project status tracking, relieving phone duty for techs to focus their work on design. ✓ Created specialized teams by work type to speed turn-around time for routine service requests and for more equitable distribution of work.
	<ul style="list-style-type: none"> ✓ High level cost estimates now provided without committing to design agreements or paying for engineering work. ✓ Flat rate pricing developed for certain services and equipment for quicker cost estimating.

WORK IN PROGRESS

- Simplified new/temp service request form on-line
- New trench inspection process with dedicated staff to speed process and focus design team work
- Continue adding to flat rate price sheet
- Revisit performance bonding

FUTURE PROJECTS

- On-line construction and design handbook
- Publish flat rate prices on website so customers can do rough cost estimates
- New procedures to enable developers to design subdivisions