

# Long-Term Rate Planning

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# Long-Term Rate Planning

- What is our key strategic question?
- Why now?
- Background information
- Preliminary planning conclusions
- Topic team timeline



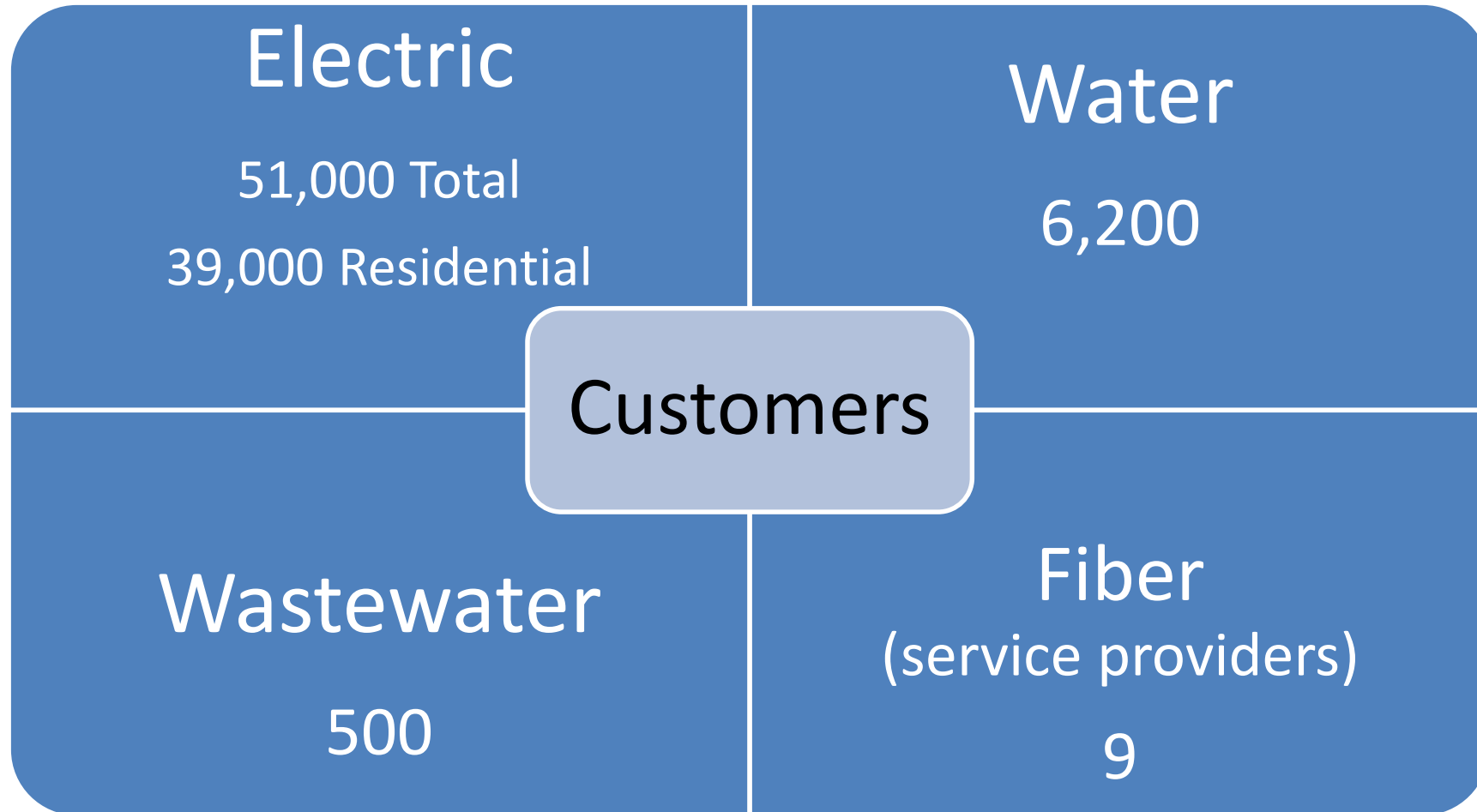
# Strategic Question

## Long-term Rate Plans

After seven years without rate increases, (and only 9% rate increase since 2000 while inflation has been around 40%) Chelan PUD plans to adopt a long-term rate plan. We have questions for our customer-owners. Should this plan:

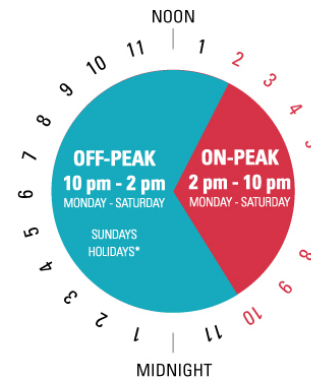
- Include annual electric rate increases at approximately the rate of inflation to avoid the risk of large rate increases in later years
- Display the hydro financial benefit separately in electric, water and wastewater bills to help customers understand the full cost of services
- Specify the balance between funding large water and wastewater system improvements from financial reserves and annual rate increases for water and wastewater
- Include annual rate increases for the water, wastewater, and fiber business units to meet individual system financial metrics
- Change rate design to be responsive to utility industry changes





# Why Now?

We need to be able to respond to utility industry changes and changing customer characteristics with appropriate rates and rate designs



# Why Now?

At the same time as we experienced seven years without rate increases, our cost of doing business has increased:

- We are experiencing a significant increase in customer growth requiring additional infrastructure investments to serve that load
- Needed reinvestments in our core electric distribution assets have increased from \$9M in 2014 to \$23M planned for 2019
- New reliability and safety compliance standards
- Effects of inflation
- Forecasts show a need to borrow funds in this planning horizon



# Why Now?

Now is actually just the right time:

- A long-term plan can be developed before there is an emergent need
- Any needed increases can be planned in small, incremental increases over time
- New rate designs can be put in place to proactively be ready for new customer characteristics
- Bills can be redesigned to display the hydro financial benefit separately in electric, water and wastewater bills to help customers understand the full cost of services



# Example of Rate Design Considerations



## Second homes/seasonal residences

Need the same size of equipment to serve, but don't use often

- Need to analyze appropriate base amount vs. energy usage components of rates

## Electric vehicles and charging stations

- Pay per single user or station provider?
- Need to analyze appropriate way to reflect high capacity with infrequent demand through rates

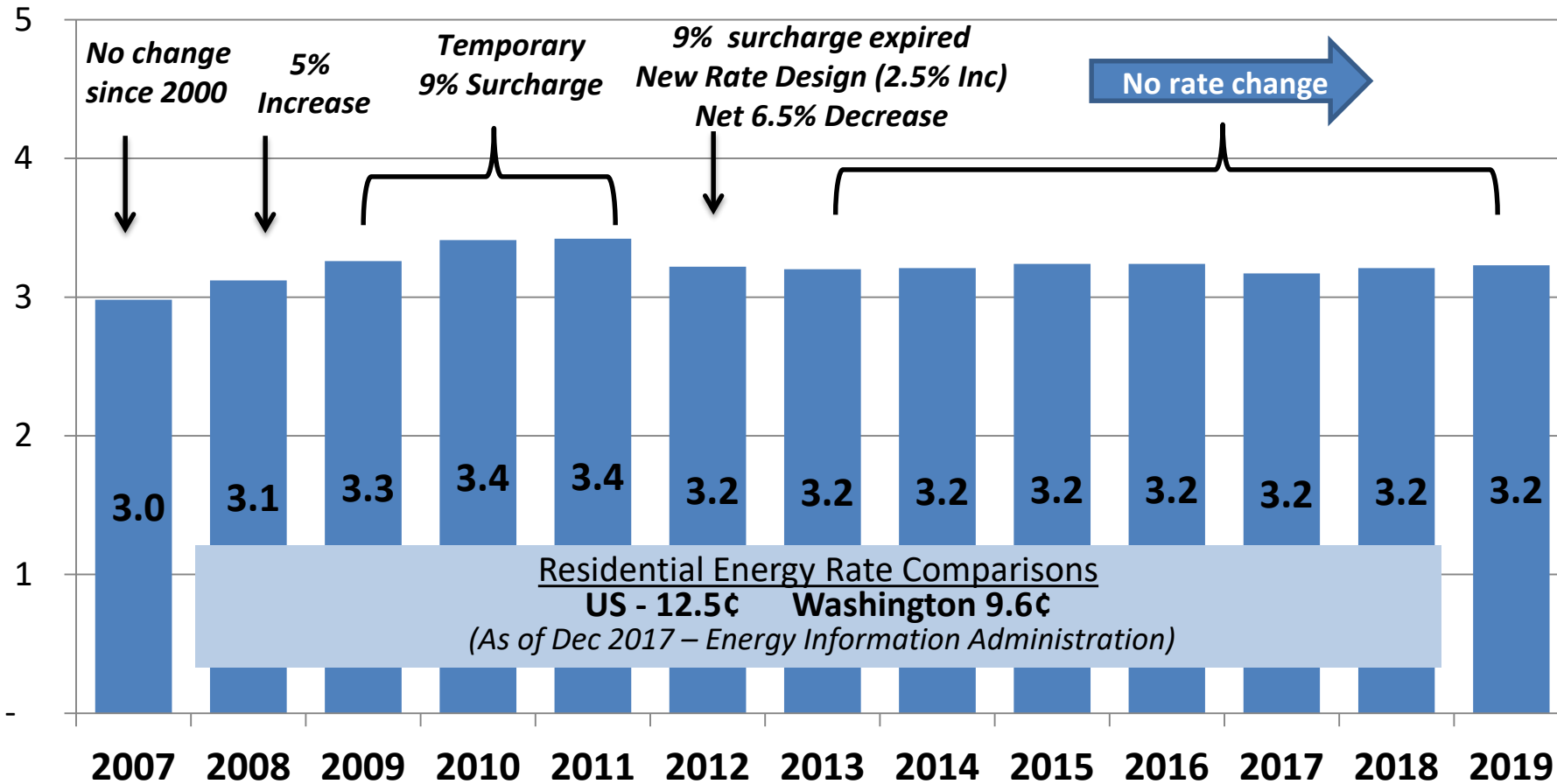




# History of Electric System Residential Rate Changes

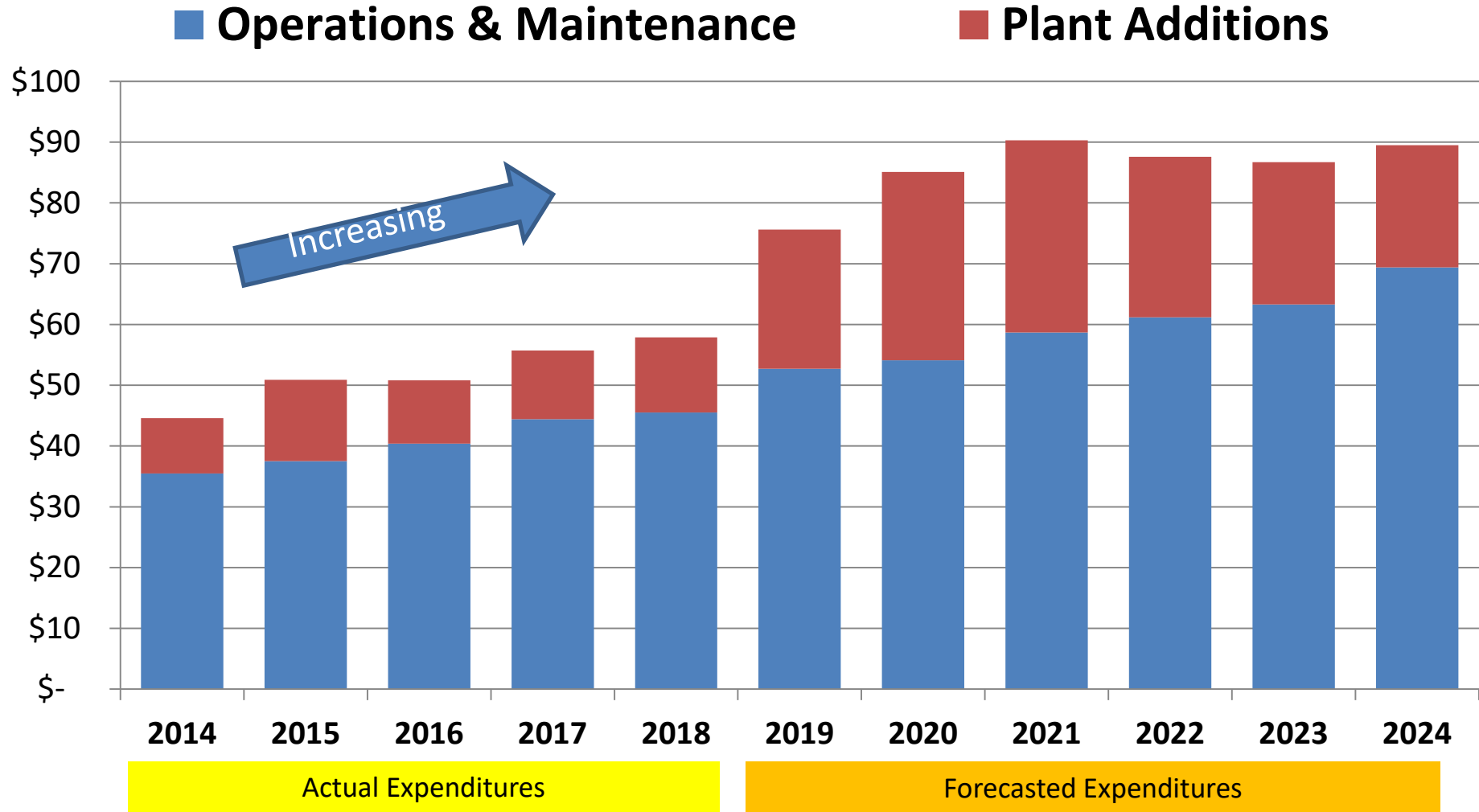
## Seven Years Without Overall Rate Increase

### ■ Residential Energy Rate (¢ per KWH)



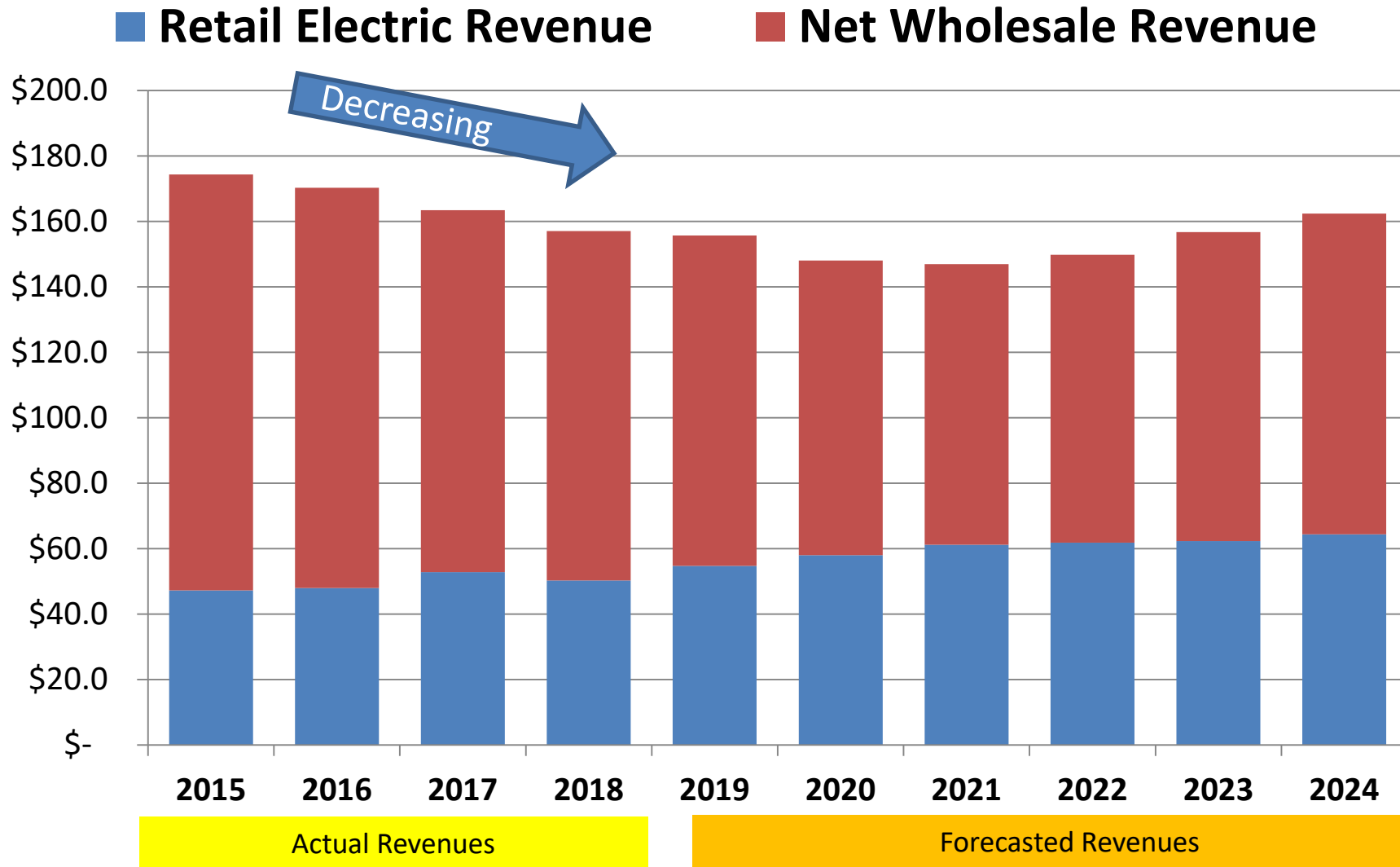
# Electric System Expenditure Growth

(amounts in millions)



# Electric Retail and Net Wholesale Revenue

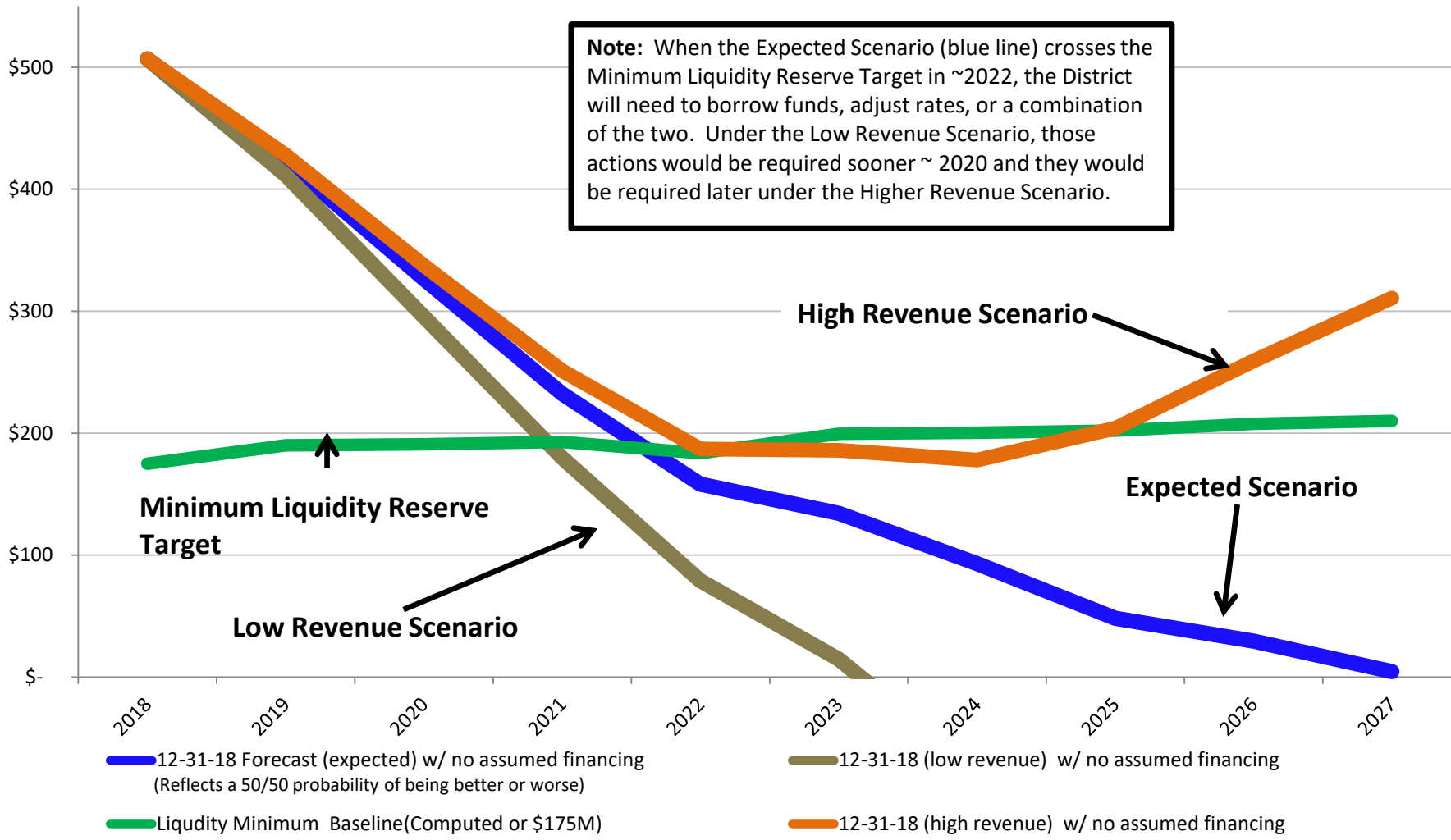
(amounts in millions)



# District Liquidity Forecast

(forecasts change as circumstances, assumptions, long-term plans and financial policies change)

***As of December 31, 2018 Forecast***



# Electric System Rate Support

*\*These are “test” metrics that we continue to monitor:*

Business Lines	2018	2019	2020	2021	2022	2023	2024
<b>Retail Rate Support Limit (target)</b>	\$25.6M	\$26.3M	\$26.9M	\$27.6M	\$28.3M	\$29.0M	\$29.8M
Retail Rate Support	\$21.1M	\$28.3M	\$30.3M	\$30.4M	\$33.0M	\$38.0M	\$40.0M
<b>Market Based Margin Limit (target)</b>	\$25.0M	\$25.0M	\$25.0M	\$25.0M	\$25.0M	\$25.0M	\$25.0M
Market Based Margin	\$50.5M	\$44.4M	\$30.1M	\$29.0M	\$29.5M	\$34.9M	\$38.8M

“Test” Metrics are indicating that our electric revenues may not be keeping up with our costs as we continue to make significant investments in our assets.

**Key observation:** We don’t want to over-rely on the volatile wholesale revenues



# Electric System

## Preliminary planning conclusions:

- Need Electric rates in place in anticipation of changing customer characteristics like electric vehicles, second/recreational homes and others
- Need a long-term rate plan for the Electric System that can cover scenarios of lower revenues and/or higher costs through small incremental rate increases over time (CPI-like)



# Water, Wastewater and Fiber Capital

Need to extend our long-term rate plans for Water, Wastewater and Fiber, also:

- Historically, the Water, Wastewater and Fiber business lines have been unable to meet their individual financial targets through rate increases and cost reduction efforts alone
- The feedback collected as part of the community outreach for the 2015-2019 strategic plan demonstrated that District customer-owners place value on the Water, Wastewater and Fiber services and are willing to invest in these services including funding their capital through sources other than their system's rates

## **Preliminary planning conclusion:**

We will want to confirm that capital funding support is still consistent with community feedback



# Water and Wastewater Rates

The 2015-2019 Strategic Plan established long-term rate plans for Water and Wastewater:

- Water: 2% per year 2015-2019, CPI thereafter
- Wastewater: 5% per year 2015-2019, CPI thereafter

## **Preliminary planning conclusions:**

We want to revisit and extend these long-term rate plans as part of this planning process





# Fiber Wholesale Rates

Fiber is unique in that we sell wholesale to service providers, not to the ultimate customers

Fiber rates are established through consideration of a number of different factors, such as market rates, cost of service, system capacity and other factors reasonably related to the provision of wholesale telecommunications services

- Impact of market rates are monitored on an ongoing basis and Fiber rates will be monitored to reflect market rates.
- Service providers provide input on rate structures



# Fiber Wholesale Rates

## Fiber rate adjustment history



### **Preliminary planning conclusions:**

Long-term rate planning indicates overall core Fiber services require rate increases during our next planning horizon of ~1% annually



# Preliminary Planning Conclusions

- Electric needs a long-term rate strategy that addresses changing customer characteristics as well as low wholesale market and high cost scenarios
- Water, WW and Fiber need to update long-term rate plans and reconfirm community support for capital assistance from sources other than rates



# Tentative Topic Team Timeline

End of March – Customer survey completed (will use to inform topic team)

## Topic team sessions

1. Thurs, Mar 28, 3-5 p.m. – Introduce topic and provide background
2. Thurs, Apr 11, 3-5 p.m. – Team feedback and discussion
3. Thurs, Apr 18, 3-5 p.m. – Conclude on team opinions/considerations

April 30–Deliverable: Report on team opinions/considerations

## Other related key strategic questions:

- Who should pay for aesthetics?
- Should growth pay for growth?
- Should more of our power be allocated to serve larger in-county loads, rather than sell on the market for a higher price that helps lower our overall rates?

