

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

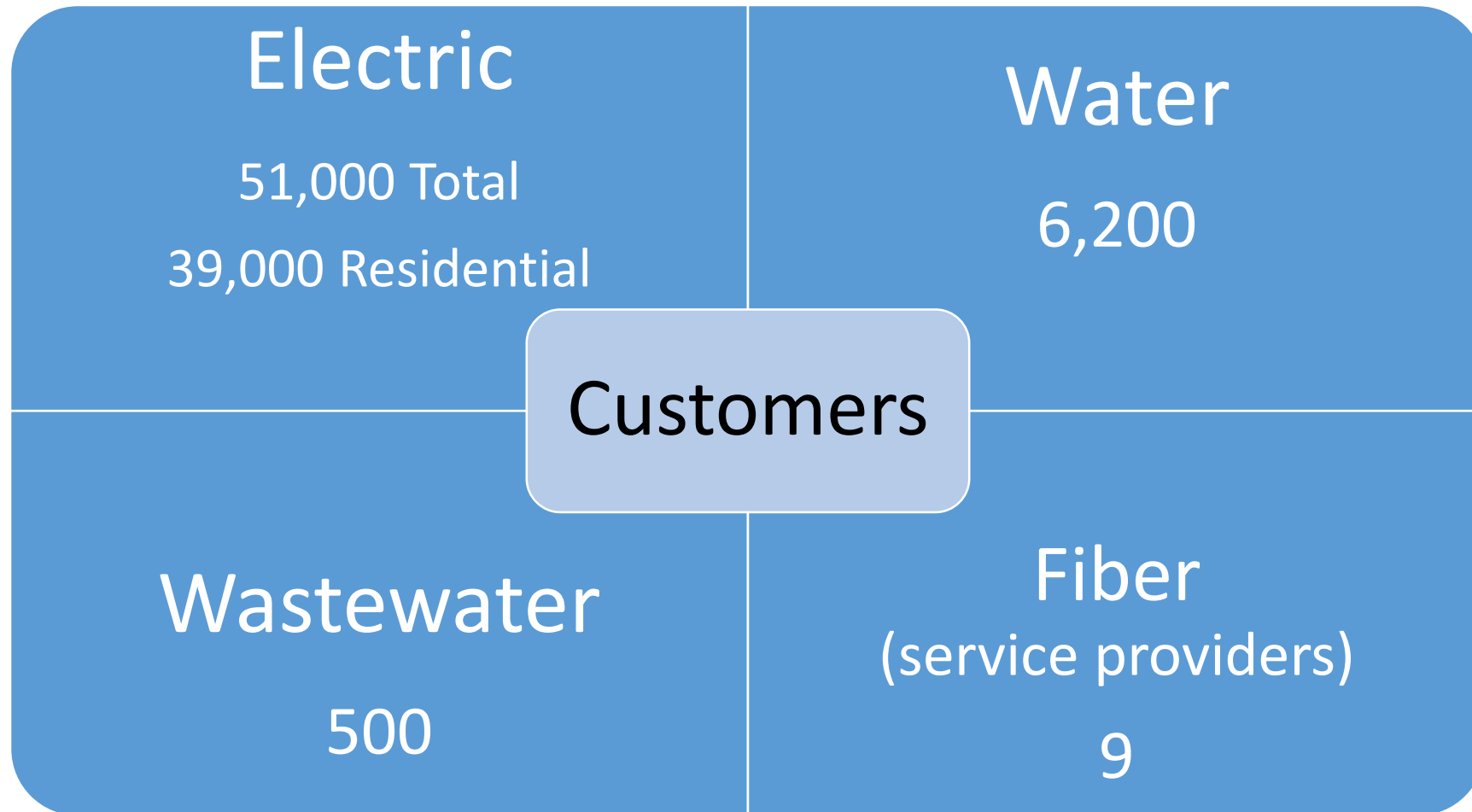


Strategic Question - Long-term Rate Plans

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:

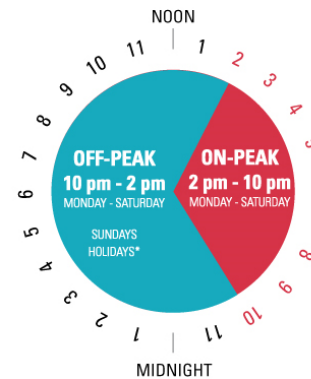
- Include annual electric rate increases at approximately the rate of inflation to avoid the risk of large rate increases in later years
- Display the hydro financial benefit separately in electric, water and wastewater bills to help customers understand the full cost of services
- Specify the balance 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

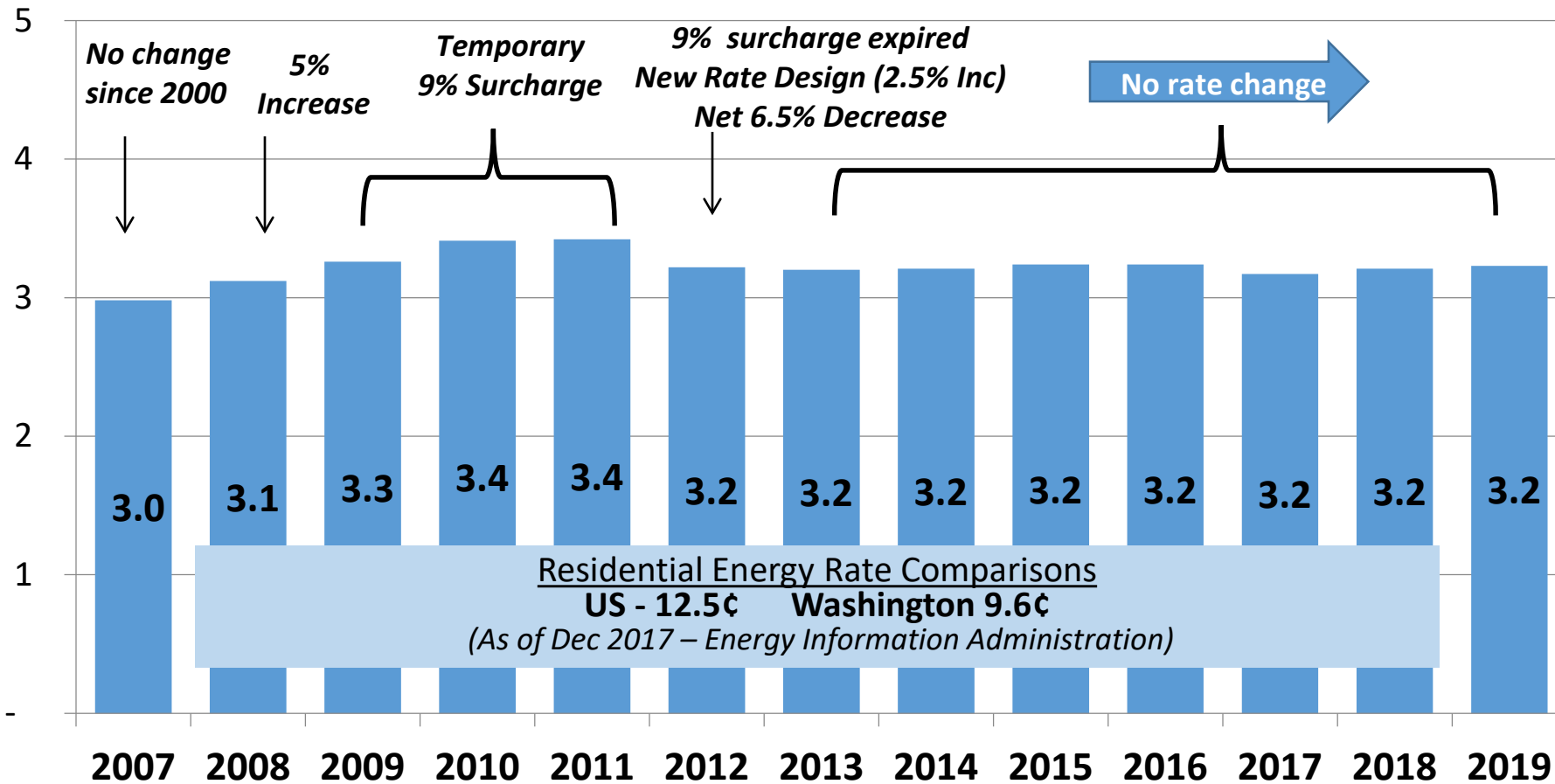
- Pay per single user or station provider?
- Need to analyze appropriate way to reflect high capacity with infrequent demand through rates



History of Electric System Residential Rate Changes

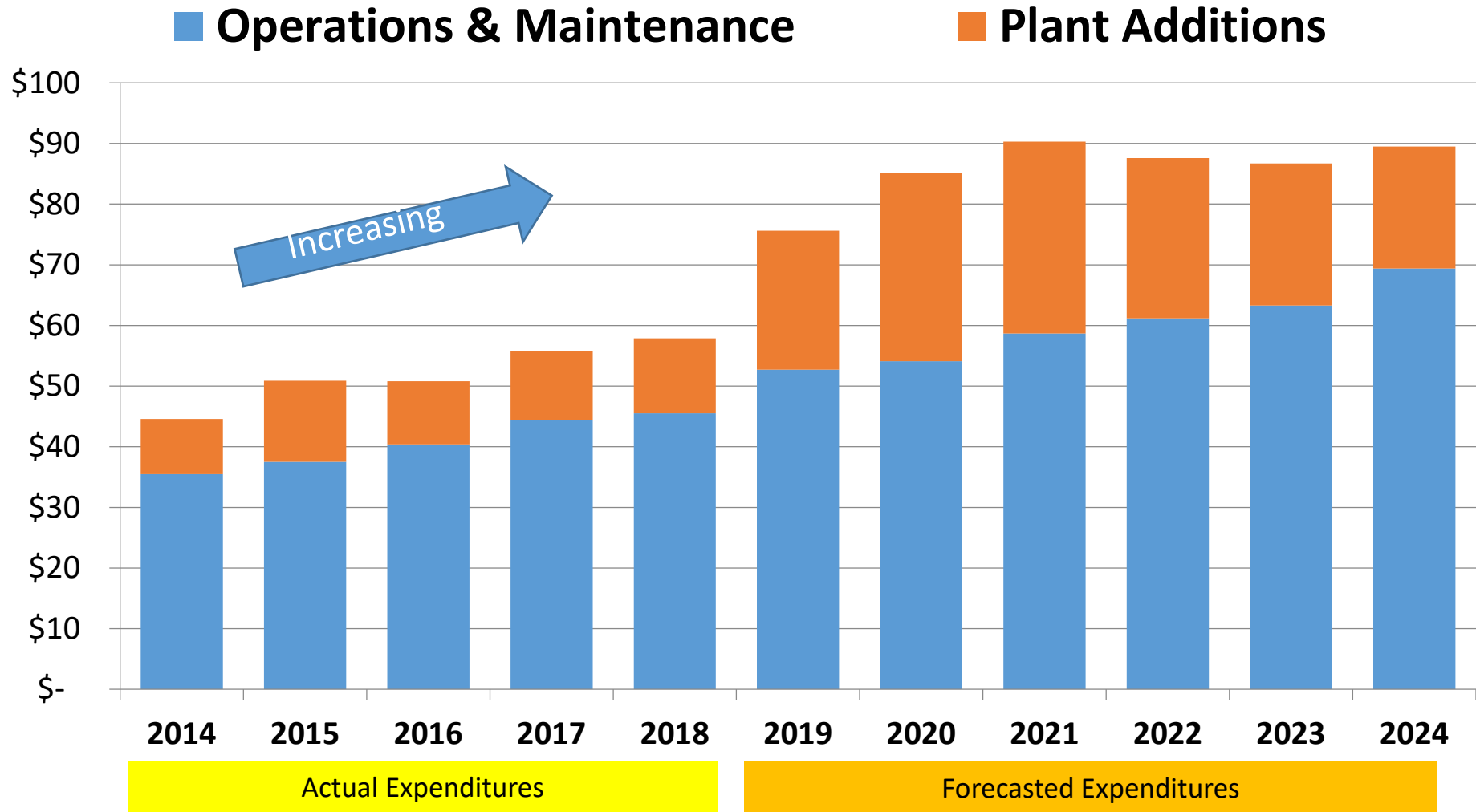
Seven Years Without Overall Rate Increase

■ Residential Energy Rate (¢ per KWH)



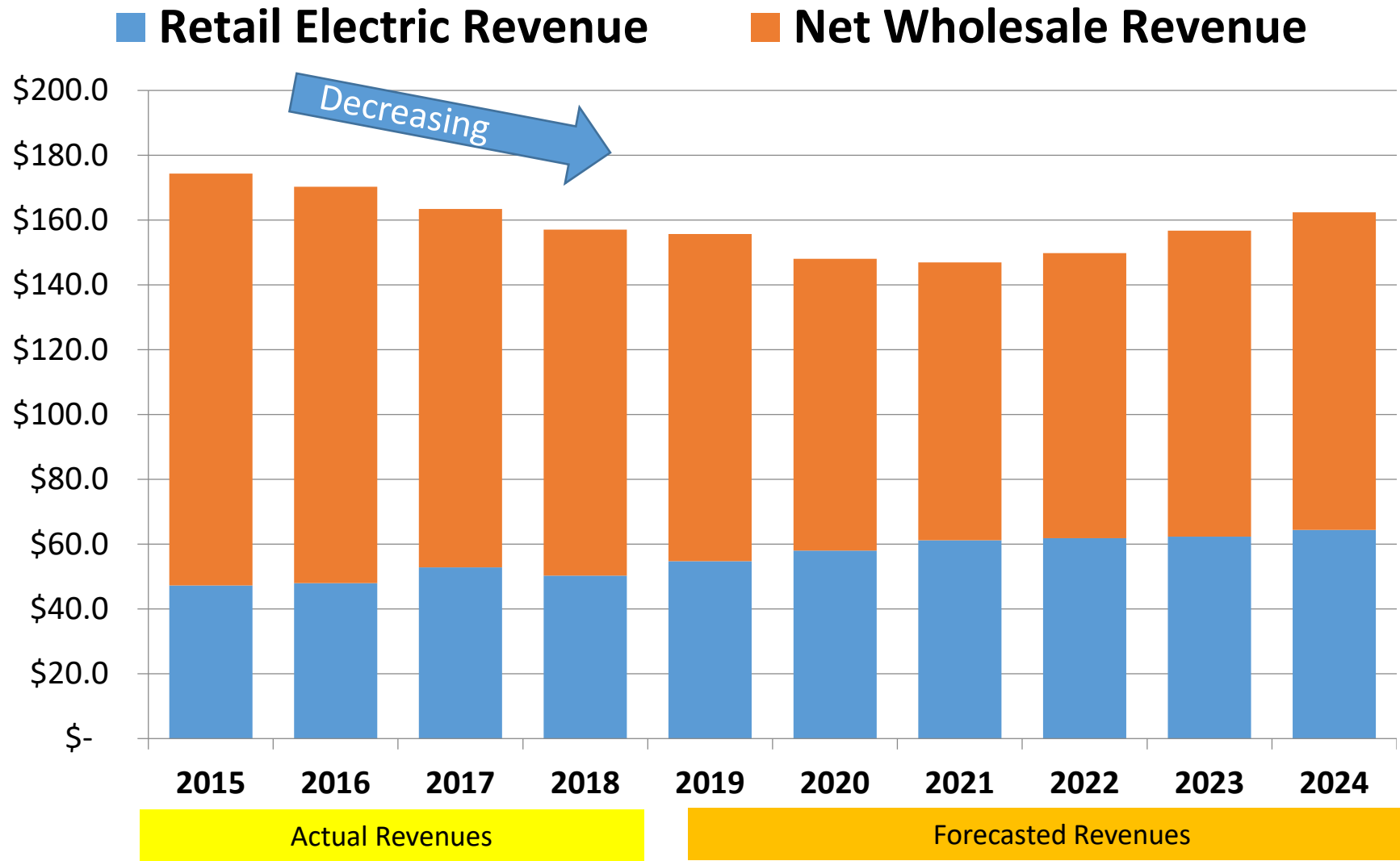
Electric System Expenditure Growth

(amounts in millions)



Electric Retail and Net Wholesale Revenue

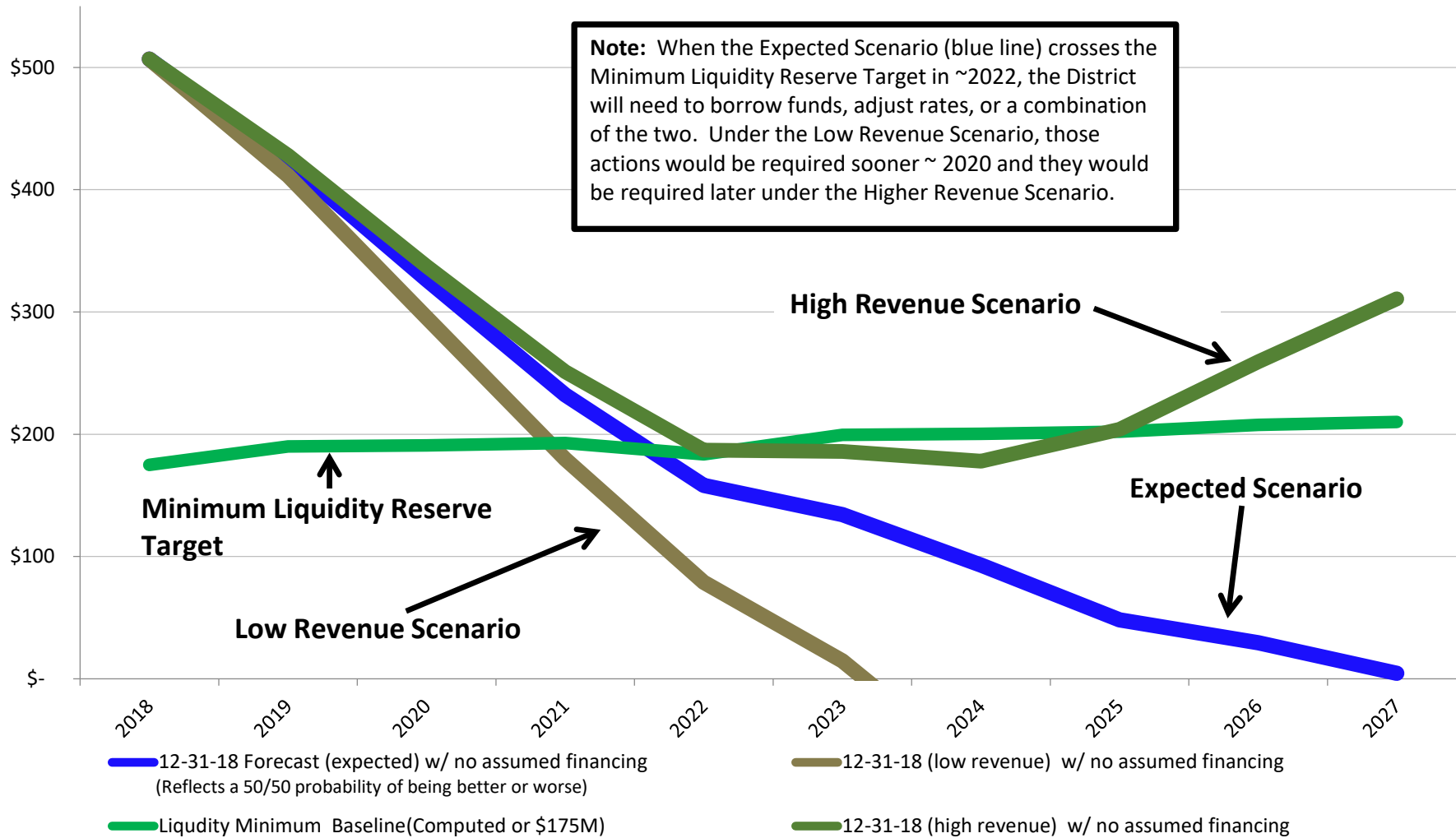
(amounts in millions)



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
Retail Rate Support Limit (target)	\$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
Market Based Margin Limit (target)	\$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 electric loads, rather than sell on the market for a higher price that helps lower our overall electric rates?

