



AGENDA ITEM: **3 – UPDATED 7-27-16**

MEETING DATE: 7/27/2016

SUBMITTED BY: Jim Lees, Utility Accounting Manager

TITLE: Power Cost of Service Study Update

DESCRIPTION:

The purpose of this item is to get a recommendation from the Loveland Utilities Commission on a proposed 2017 Power rate design and on a 5-year rate track for Power.

SUMMARY:

At last month's LUC meeting, Mark Beauchamp, President of Utility Financial Solutions, our power rate consultant, made a presentation of the first results for 2017 rate designs from the Power cost-of-service rate study and asked for direction from the LUC on three key rate study components. Those three components are:

- 1) Increasing the monthly base charge to reflect cost of service
LUC Direction: Move about halfway toward cost-of-service for the Residential and Small General Service classes and go to cost-of-service for the larger commercial classes.
- 2) Implement full cost-of-service results for each customer class, regardless of what those rate increases or decreases might be, or put some limitations on how much each customer class will be adjusted for 2017
LUC Direction: Take the overall average rate increase for 2017 of 6.5% and put a cap on how much each individual rate class would be adjusted in 2017 of + or – 1% of the 6.5% overall average increase.
- 3) Implement full cost-of-service results for each customer class, for the differential between the Summer and non-Summer seasons, regardless of what those rate increases or decreases might be, or continue to gradually step toward full cost-of-service differential between Summer and non-Summer rates
LUC Direction: Take a small step (using Mark's discretion) toward cost-of-service and continue the movement toward cost-of-service in succeeding years.

Updated cost allocation data was plugged into the model since the June LUC meeting, which resulted in a cost-of-service shift from the Residential class to the Commercial classes. As a result, for #1 above, Staff is now recommending to move to cost of service for the base charge in Residential in 2017, but still step about halfway towards cost-of-service for the base charge for the Small General Service class. Mark will be joining us this month by videoconference to present the proposed rate design for 2017, taking into account the input received from the LUC at last month's meeting.

Currently, the overall average rate increase for 2017 is 6.50%, which is a combination of passing through PRPA's 4.0% wholesale power rate increase (which translates to a 3.24% retail rate increase) and an additional 3.26% increase to address increased costs in Health Insurance, Cost Allocations, costs associated with the new solar project and the new Foothills Substation that will not be eligible for FEMA or State reimbursement and for additional capital needs. The 4.0% proposed wholesale rate increase will be presented to the PRPA Board at their August meeting, and the hope is that what is presented to the Board will be very close to or exactly what the actual wholesale rates will be for 2017.

The overall average rate increase for 2017 is 6.50%, and based on the proposed changes in the base, consumption and demand charges, the average rate increase by rate class is:

RATE CLASS:	% Increase
Residential	6.35%
Small General Service	7.50%
Large General Service	6.50%
Primary Service with Customer-owned Transformer	7.38%

Taking into account the direction from the LUC, here is a summary of the key rates Mark has developed for 2017:

SUMMARY OF KEY CHANGES

POWER: SUMMER MONTHS	July-Sept. 2016	July-Sept. Proposed 2017
Residential:		
Base Charge (per month)	\$13.36	\$14.41
Consumption Charge (per kWh including PILT)	\$0.08677	\$0.09206
Small General Service:		
Base Charge (per month)	\$21.38	\$25.38
Consumption Charge (per kWh including PILT)	\$0.09027	\$0.09751
Large General Service:		
Base Charge (per month)	\$96.10	\$134.87
Consumption Charge (per kWh including PILT)	\$0.04503	\$0.05099
Demand Charge (per kW)	\$14.26	\$14.50
Primary Service (with Customer-owned Transformer):		
Base Charge (per month)	\$105.07	\$152.12
Consumption Charge (per kWh including PILT)	\$0.04355	\$0.04994
Demand Charge (per kW)	\$13.73	\$13.80

POWER: NON-SUMMER MONTHS	Jan.-June,	Jan.-June,
	Jan.-June, Oct.-Dec. 2016	Oct.-Dec. Proposed 2017
Residential:		
Base Charge (per month)	\$13.36	\$14.41
Consumption Charge (per kWh including PILT)	\$0.07326	\$0.07759
Small General Service:		
Base Charge (per month)	\$21.38	\$25.38
Consumption Charge (per kWh including PILT)	\$0.08259	\$0.08696
Large General Service:		
Base Charge (per month)	\$96.10	\$134.87
Consumption Charge (per kWh including PILT)	\$0.04594	\$0.04778
Demand Charge (per kW)	\$9.93	\$10.50
Primary Service (with Customer-owned Transformer):		
Base Charge (per month)	\$105.07	\$152.12
Consumption Charge (per kWh including PILT)	\$0.04417	\$0.04713
Demand Charge (per kW)	\$9.50	\$10.00

If approved, the 6.50% rate increase would result in the following average monthly changes by rate class:

AVERAGE CHANGE IN MONTHLY POWER BILL	Overall Avg. Change	Summer Avg. Change	Non- Summer Avg. Change
Residential	\$4.17	\$5.12	\$3.85
Small General Service	\$13.93	\$19.17	\$12.19
Large General Service	\$235.67	\$355.84	\$195.61

There are only three Primary Service customers with very diverse energy usage profiles, so an average change for that class is not very meaningful.

In addition to the proposed rates for 2017, Mark also had a proposed 5-year rate track at the last meeting. That rate track was:

2017: 6.5%

2018: 4.0%

2019-2021: 3.0% per year

The current recommended rate track is the same, with the exception of 2018 changing from 4.0% to 5.0%. At last month's meeting, Mark referenced two targets for his long-range financial plan model: Adjusted Operating Income and Projected Cash Balances. With this rate track, the Adjusted Operating Income will fall short of the target in 2017-2020, but will be close to the target in 2021 and the Projected Cash Balances will also be short of the target in 2017-2020, but will be exceed the target in 2021.

RECOMMENDATION:

Recommend moving forward to City Council with the proposed rates for 2017 and the 5-year rate track for Power at the August 23, 2016 Study Session.

REVIEWED BY DIRECTOR: