



**Okanogan County Public Utility District
May 28, 2013**

**Review Panel Workshop –
2013 Equity Management Plan and Rate Study Update**

**Richard Cuthbert, Senior Project Manager
Gina Baxter, Senior Analyst**

Workshop Agenda

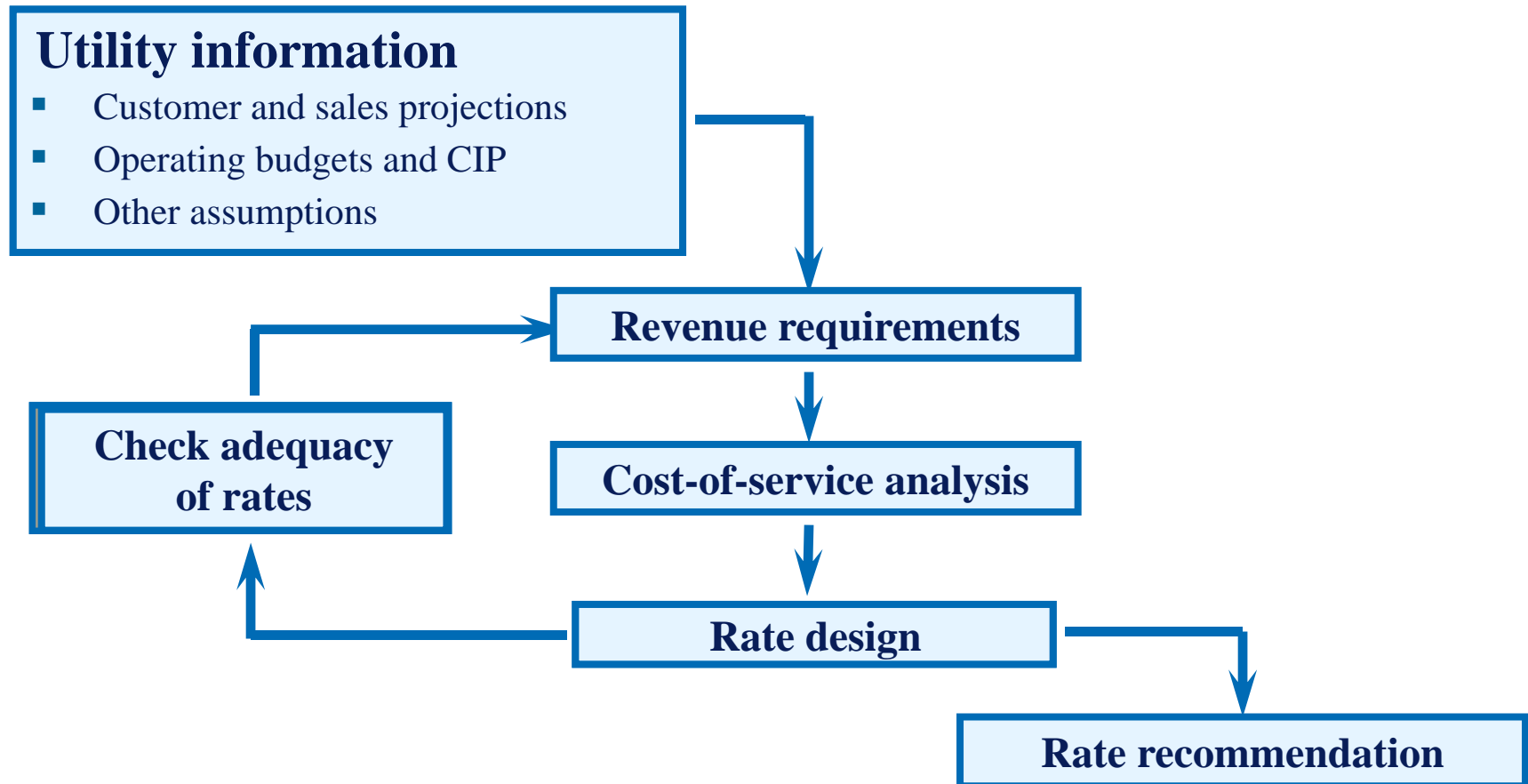
- **Review of electric utility ratemaking process**
- **Review of the equity management plan (EMP) and how it impacts the ratemaking process**
- **Review revised preliminary draft 2013 results**
 - **EMP Base Case and Alternative Scenarios**
 - **Cost-of-Service Analysis**
 - **Rate Design Analysis**

Feedback Needed from Review Panel

- **What level of rate increases should the District adopt over the next three years?**
- **If rate increases are adopted, what rate components should be increased?**
 - **Basic Charges?**
 - **Energy Charge?**

Review of the Ratemaking Process

Steps in Electric Utility Ratemaking Process



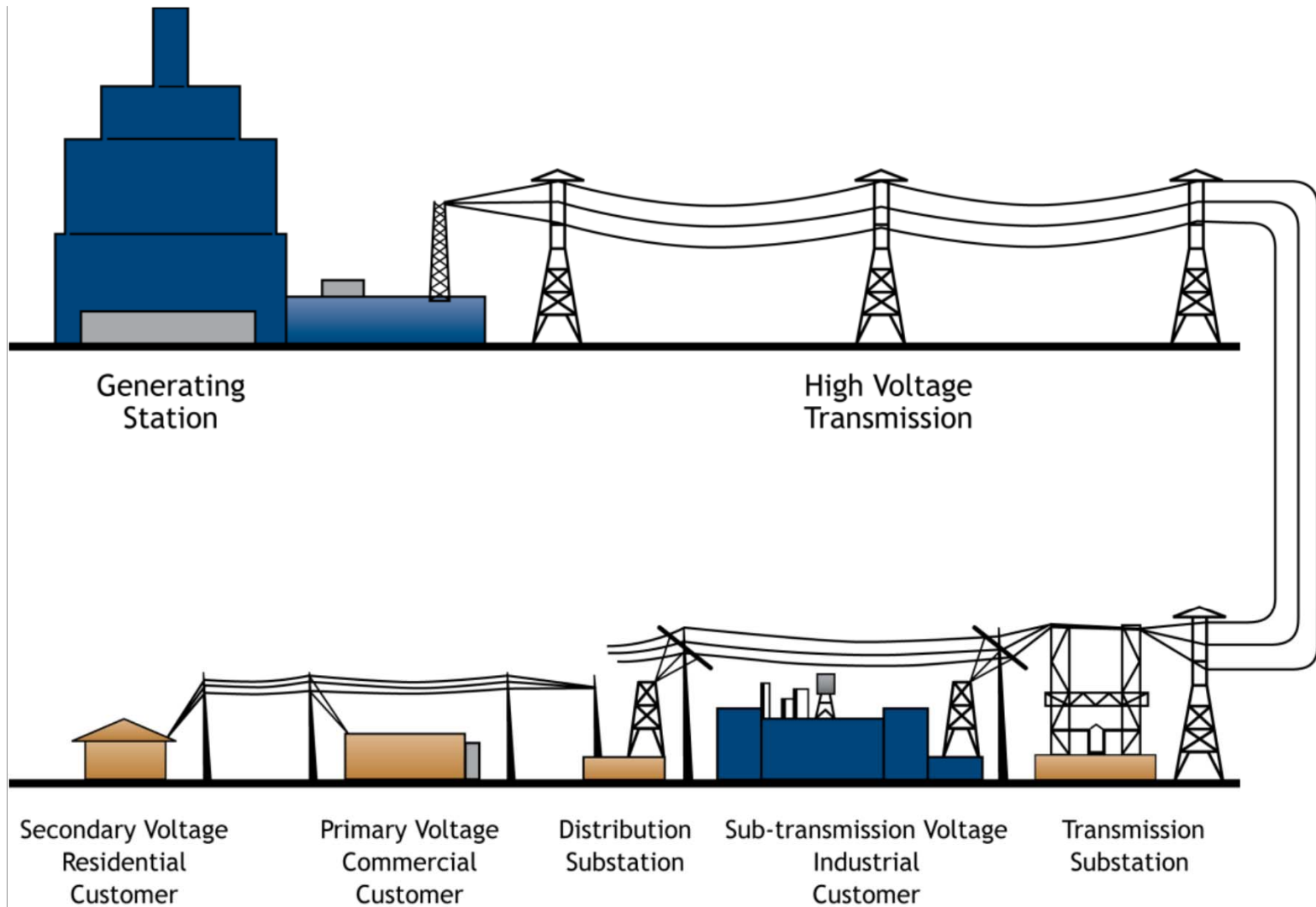
Revenue Requirements

- **Determines the overall level of revenue needed to provide electric service**
- **Items included in the revenue requirement:**
 - **Operation and maintenance costs**
 - **Other operating costs (e.g., taxes)**
 - **Interest expense**
 - **Depreciation**
 - **Other income (e.g., interest earnings)**
 - **Margins**

Cost-of-Service Analysis

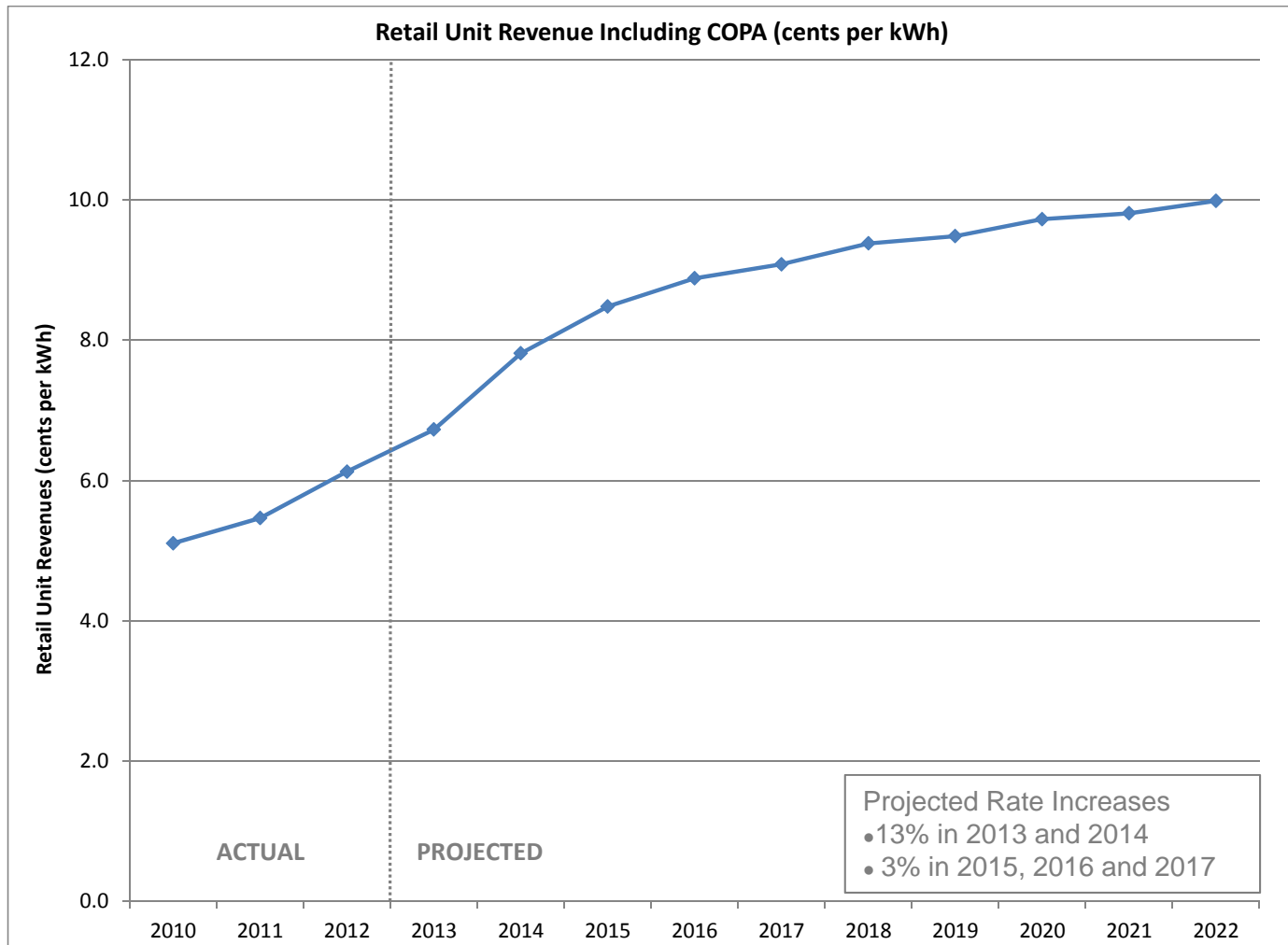
- **Cost-of-service (COS) equals total cost of providing utility service to groups of similar customers or customer classes**
- **COS analysis is the process of classifying and allocating a utility's revenue requirements to customer classes**

Typical Electric Utility System

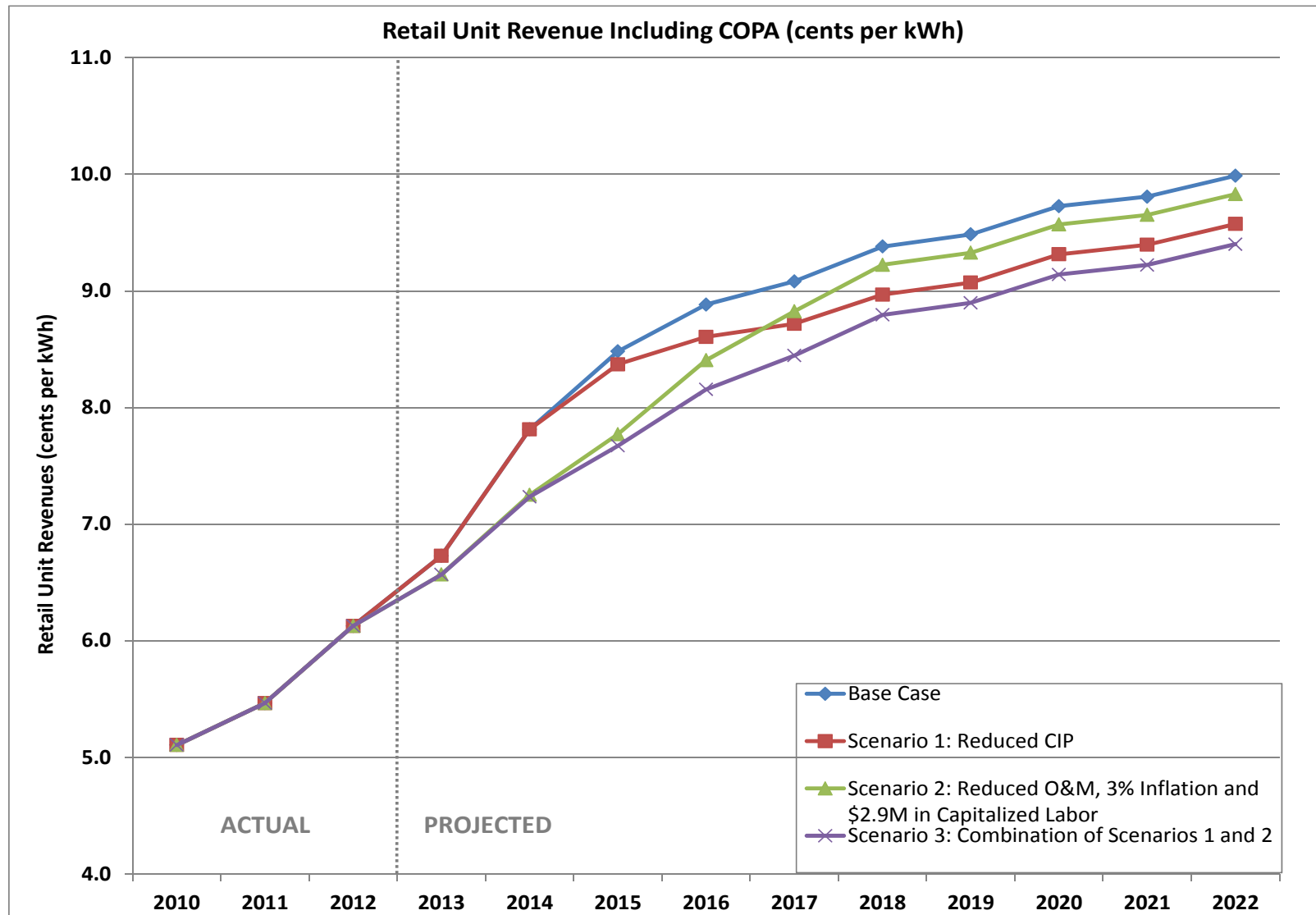


Draft 2013 Equity Management Plan Results – Base Case

Base Case Preliminary Unit Revenues from Retail Sales Including COPA (¢/kWh)



Comparison of Draft Unit Revenues from Retail Sales Including COPA (¢/kWh)



EMP Options

- **Base Case**
 - **13% for 2013, 12.5% for 2014, 2.5% in 2015-2017**
- **EMP Option 1**
 - **16% for 2013, 16% for 2014, 0% in 2015-2017**
- **EMP Option 2**
 - **9.5% for 2013, 9.5% for 2014, 9.5% in 2015, 2.5% in 2016 and 2.0% in 2017**

Draft 2013 Cost-of-Service and Rate Design Results

District's Draft TY 2013 Revenue Requirement

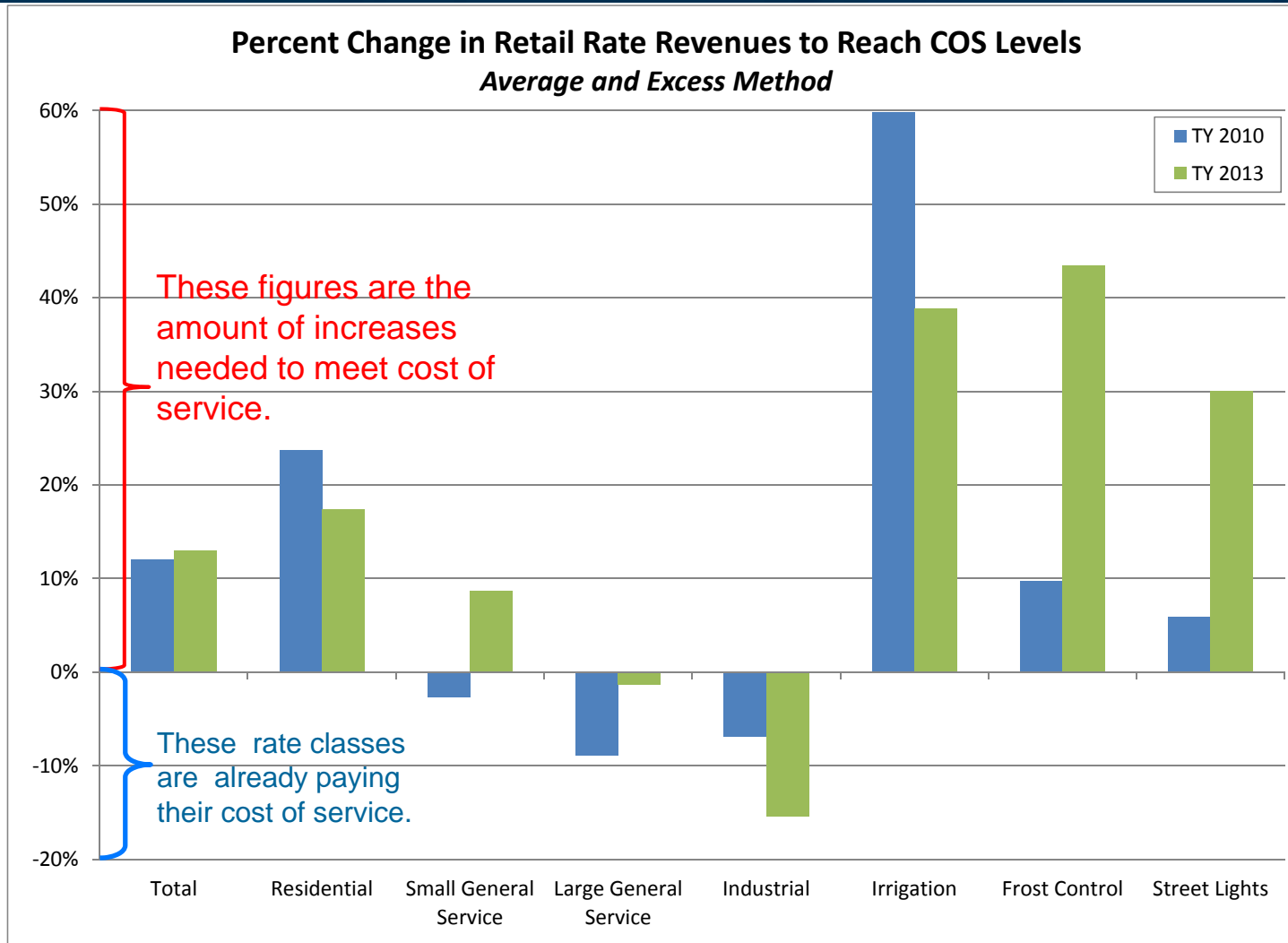
Description	Projected Test Year 2013	Pro forma Adjustments (1)	Adjusted Test Year 2013
Total Revenues From Sales of Electricity	\$39,868,382	\$4,703,167	\$44,571,549
Other Electric Revenues	727,000	-	727,000
Total Revenues	\$40,595,382	\$4,703,167	\$45,298,549
Operating Expenses	\$46,427,249	\$0	\$46,427,249
Other Expenses	1,959,636	0	1,959,636
Total Operating Cost of Service	\$48,386,885	\$0	\$48,386,885
Margins or Increase in Net Assets	(4,696,503)	4,703,167	6,664
Operating Revenue Requirements	\$43,690,382	\$4,703,167	\$48,393,549
Total Non-Operating Revenues	\$3,095,000	\$0	\$3,095,000
Total Revenue Requirements	\$43,690,382	\$4,703,167	\$48,393,549
Less Interest Income	(991,000)	-	(991,000)
Less Contributions in Aid of Construction	(1,104,000)	-	(1,104,000)
Less Use of Rate Stabilization Funds	(1,000,000)	-	(1,000,000)
Less Other Revenues	(727,000)	-	(727,000)
Less Wholesale Revenues	(2,640,925)	-	(2,640,925)
Revenue Requirements from Rates	\$37,227,457	\$4,703,167	\$41,930,624
Revenue Increase (Decrease)	-		\$4,703,167
Percent Change	-		13.0%
Debt Service Coverage Ratio (DSC)	0.28		1.63
TIER (Operating)	(3.11)		(0.60)
TIER (Total)	(1.40)		1.00

Notes

(1) Assumes retail revenue increase equal to 13% retail rate increase effective for a 12 month period.

Draft Cost-of-Service Results

Percent of change needed to reach COS



Draft TY 2013 COS Results – A&E Method Unit Costs

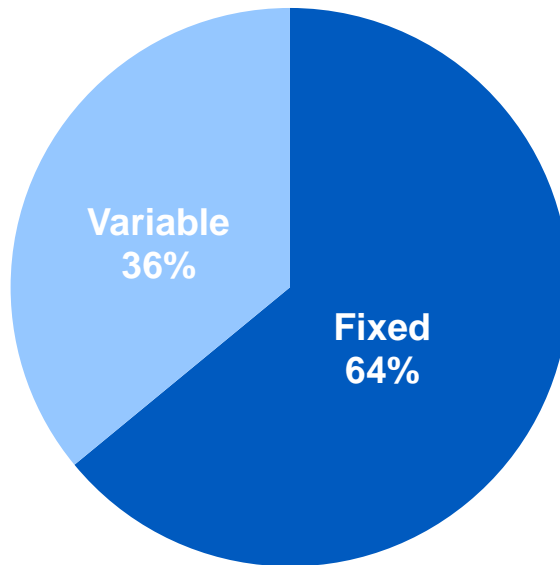
Base Case

Average and Excess Method Unit Costs

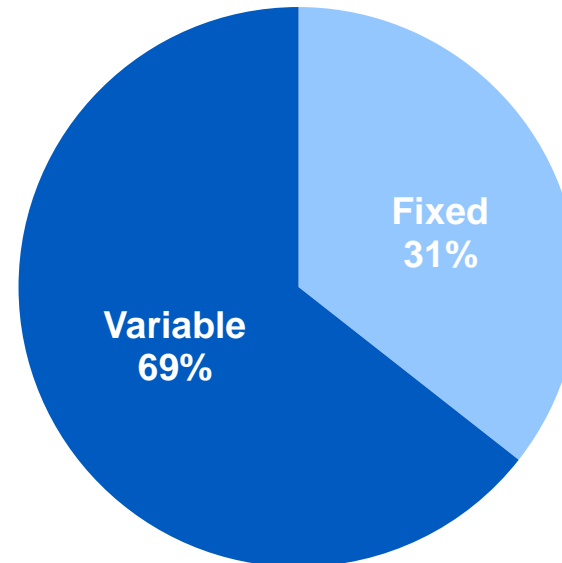
	Residential	Small General Service	Large General Service	Industrial	Irrigation	Frost Control	Street Lights
Unit Costs not including Sales for Resale							
Customer - \$/Customer-Month	\$27.61	\$31.55	\$44.03	\$171.52	\$41.35	n/a	\$14.89
Energy - \$/kWh	0.06628	0.06079	0.03079	0.03079	0.03079	0.03079	0.13346
Demand - \$/kW-Month	n/a	n/a	\$6.21	\$6.08	\$10.81	n/a	n/a
Fixed Costs (\$/Customer-Month)	\$78.27	\$95.67	\$1,404.72	\$10,983.92	\$186.57	\$53.31	\$568.81
Variable Costs (\$/kWh)	0.03079	0.03079	0.03079	0.03079	0.03079	0.03079	0.03079
Unit Costs including Sales for Resale							
Energy - \$/kWh	0.06121	0.05631	0.02714	0.02782	0.02651	0.01416	0.12539
Variable Costs (\$/kWh)	0.02572	0.02632	0.02714	0.02782	0.02651	0.01416	0.02272

2013 Residential Costs and Revenues

Costs

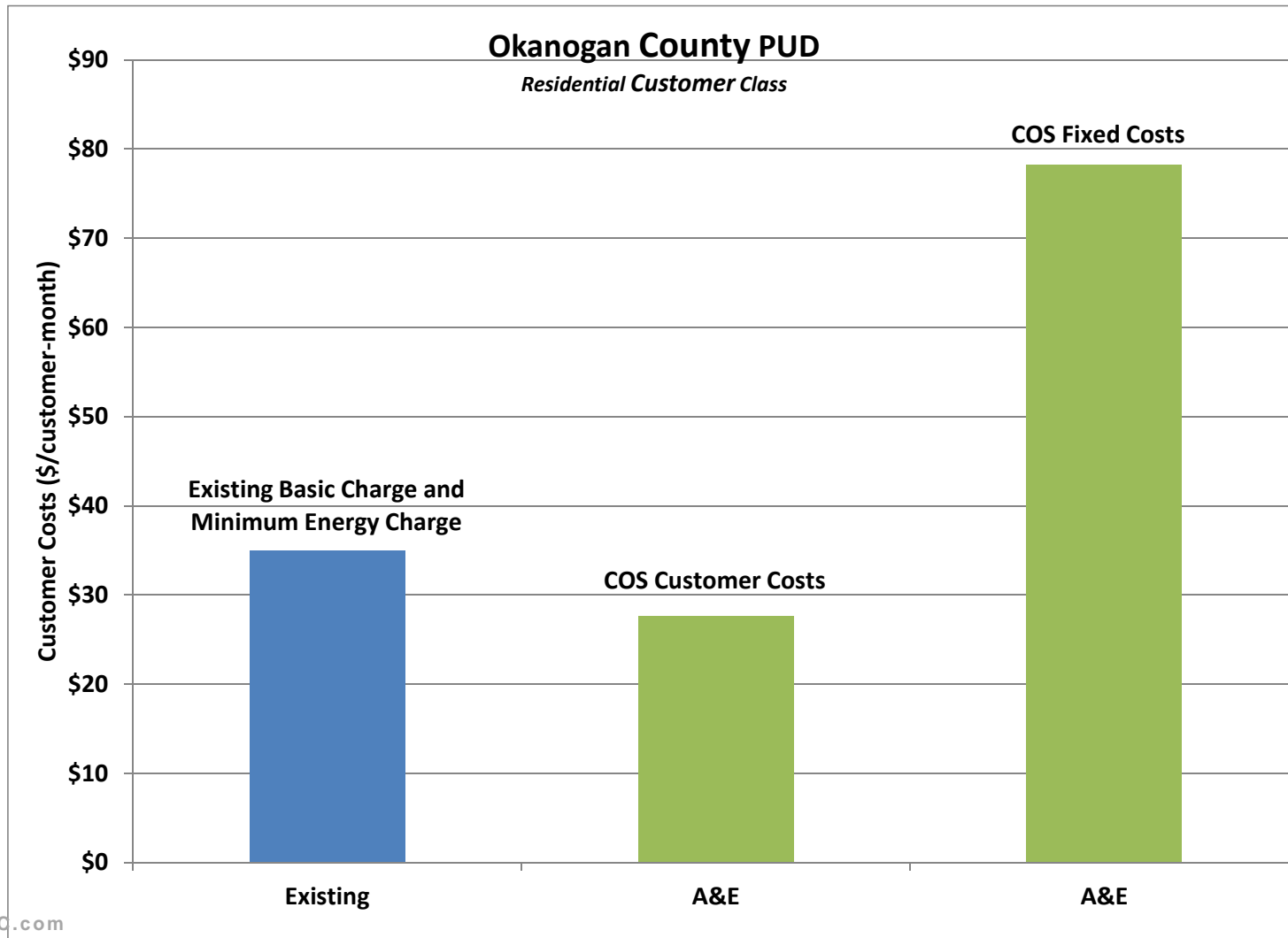


Revenues*



Note: Assumes the Basic Charge and Minimum Energy Charge will not change and that increases in rate revenues will be reflected in changes to the Energy charges.

Comparison of Unit Costs to Existing Rates



Principles Used in Rate Design

- **Promote revenue stability**
- **Reflect the cost of providing services**
- **Easily understood by customers**
- **Promote rate continuity over time**
- **Fair, equitable and non-discriminatory test**
- **Easy to administer**
- **Promote efficient use of electricity**
- **Meet and reflect utility's policy objectives**

Rate Design Options Reviewed Today

- Rates reflect 3 x 9.5% annual across-the-board increases
- Use of rate stabilization funds in 2013 and 2014
- Phase out residential Minimum Energy Charge (MEC) allowance
- Three rate options for residential class:
 - 3A: Three year phase out of residential MEC allowance and no change to Energy Charge
 - 3B: Three year phase out of residential MEC allowance - adjusted Energy Charge
 - 3C: Two year phase out of residential MEC allowance - no change to Energy Charge
- Change from horsepower to demand charge for Frost Control

Feedback Needed Today

- **Confirmation on three 9.5% rate increases and use of rate stabilization funds?**
- **Across the board rate increases for all customer classes?**
- **Input on options for phase out of Residential and Small General Service Minimum Energy Charge allowance?**
- **Change from horsepower to demand charge for Frost Control?**
- **Effective date of first rate increase?**

Next Steps

- **Board to select final rate change options – May/June**
- **Completion of rate proposal– June**
- **Public meetings – June/July**
- **Board to vote on rates – Late July**
- **Rates implementation target – September 1, 2013**

Questions?