

Electric Utility Cost of Service Study Update

July 27, 2021





Background

- Electric rates were last looked at in detail circa 2013 as the electric utility made plans for its exit from the FMPA All-Requirements Project.
- Shortly afterwards the City Commission requested that residential rates for customers using < 1000 kWhrs/month achieve rate parity with the neighboring IOU by February 2018.
- Since 2013 significant changes have been made to the utility's cost structure, fuel prices, and revenues that call for revisiting rates.
- Leidos was selected to conduct the study
 - Craig Shepard, Principal Analyst has been leading Leidos' team working with LWB Staff



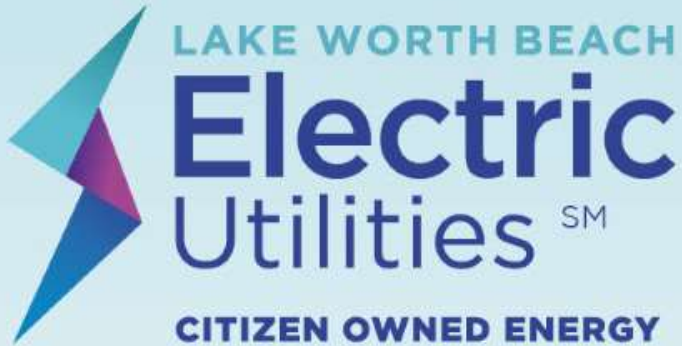
Background

- Rate studies should be performed periodically. Costs and revenues are not static, nor are market conditions for underlying commodities, community desires and aspirations, and relative competitive position.
- We are at the point now where major activities such as significant cost cutting, restructuring of operations, identification of SHRIP capital needs, and refinancing of debt are sufficiently understood to the extent that a clearer picture of costs and revenue requirements can be presented.



Background

- A Cost of Service Study by itself is not the sole determinant of Rates
 - Test year costs as well and revenue requirements are studied, and extrapolated for growth and expected known changes
- Other factors must be considered in the overall decision on rates, among them:
 - Sustaining and improving on our investment-grade credit rating
 - Competitiveness and fairness
 - Ability to meet operating needs at acceptable service levels
 - Community aspirations
 - Regulatory requirements



Tonight's Agenda

- Tonight we will provide an overview of the purpose, sources of data, methodology, and progress of the study.
- Tonight's meeting is intended to be informative with opportunity for Q&A, no specific action is being requested at this time.
- Changes in rates will be brought forward for approval at a future meeting if the Commission so requests.
- Observations, conclusions and recommendations at this point are not final.



Observations

- Our Residential rates are competitive statewide and regionally with IOUs and Municipal counterparts alike
 - Our base energy rate and fuel charge need to be adjusted, yet the total residential bill can remain essentially neutral for now
- Our Commercial rates are high
 - Base energy and fuel charges need to be adjusted
 - Demand rates are high, and should be adjusted to market over time
- Some changes should be made effective with the coming fiscal year
- Our minimum bill amounts are substantially lower than our actual costs