

MEMORANDUM

To: Mayor and City Council Members
Doug Faseler, City Manager

From: Rick Cortes, Assistant City Manager

Subject: Acceptance of Electric Rate Study and Corresponding Electric Rate Modifications

Date: August 5, 2014

The City of Seguin has been working with Schneider Engineering in the development of an Electric Cost of Service Study. Cost of service studies measure the way that electric distribution systems allocate costs to each class of customers. It highlights inadequacies in the overall cost recovery of the utility, identifying cost subsidizations between rate classes of customers. Ultimately, costs of service studies are a tool governing bodies/management utilize to allocate costs and revenues to meet future needs. The previous Electric Rate Cost of Service study was prepared by C. H. Guernsey in 2008; as part of that study, the City of Seguin modified its electric rates by classification as recommended in the study. Since 2008, no electric rates other than the Power Costs Recovery Factor (PCRF) have been modified.

Please note that Electric Rates are categorized as Residential, Commercial, Large Power, or Industrial, where the Industrial Rate Class also incorporates a subclass entitled Primary Industrial. The rates for each classification are based on four elements;

Customer Charge

- Usually covers fixed administrative and operation expenses.
- Billing, customer service, non-variable costs.
- Expressed as a flat, monthly charge.

Energy Charge

- The cost to operate and maintain the distribution electric system.
- Occasionally incorporates some wholesale power costs.
- Funds general fund transfers.
- Expressed as \$/kWh.

Demand Charge

- Related to the costs to maintain the capacity to serve a particular customer.
- Usually not applied to Residential and Small Commercial Customers (anything less than 25-50 kW).
- Impacts customers who have poor load factor use a lot of energy for only short periods of time the most.
- Expressed as \$/kW.

Power Costs Recovery Factor (PCRF)

- Related to the costs to purchase wholesale power to serve customers.
- Design and application depends on utility and customer needs.
- Expressed as \$/kWh.

Based on the aforementioned cost of service study completed by Schneider Engineering, staff is recommending modification to the City's rate structure. The modifications are as follows:

	<i>Current</i>	<i>Proposed</i>
<i>Residential</i>		
Customer Charge	\$ 8.00	\$ 12.00
Energy Charge	\$ 0.028800	\$ 0.0325
<i>Commercial</i>		
Customer Charge	\$ 11.00	\$ 25.00
Energy Charge	\$ 0.025700	\$ 0.0295
<i>Large Power</i>		
Customer Charge	\$ 50.00	\$ 75.00
Energy Charge	\$ 0.016945	\$ 0.0275
Demand Charge	\$ 3.65	\$ 2.00
<i>Industrial</i>		
Customer Charge	\$ 150.00	\$ 200.00
Energy Charge	\$ 0.010000	\$ 0.0130
Demand Charge	\$ 2.50	\$ 3.00
<i>Primary Industrial</i>		
Customer Charge	\$ 145.00	\$ 200.00
Energy Charge	\$ 0.009700	\$ 0.0110
Demand Charge	\$ 2.43	\$ 3.00

Additionally, please note that staff is recommending a decrease to the PCRF rate for all classes other than the Primary Industrial class. The Primary Class's PCRF of 0.060823 is scheduled to increase by .001677; once implemented, the 0.062500 PCRF rate will be consistent for all classes. The proposed rate structure incorporates the proposed Electric Department projects as identified in both the 2014-15 Proposed Budget, which include the construction of a badly needed Utility Facility/Warehouse and electric distribution projects, and associated personnel and equipment.

The overall impact to customer by classification based on average monthly kWh usage is as follows;

	kWh	Current	Proposed
Residential	1,000	\$ 99.66	\$ 107.00
Commercial	2,183	\$ 204.33	\$ 225.84
Large Power	18,627	\$ 1,755.56	\$ 1,751.43
Industrial	411,410	\$ 31,958.66	\$ 33,460.46
Primary Industrial	1,002,162	\$ 75,904.94	\$ 80,136.03

Overall these proposed rates are very competitive with similar utilities throughout this area. Staff recommends approval and will be available to answer any questions.