Alternative Rate Options/Structures to OPPD's "Rethinking Rates" Fixed Fee Increase

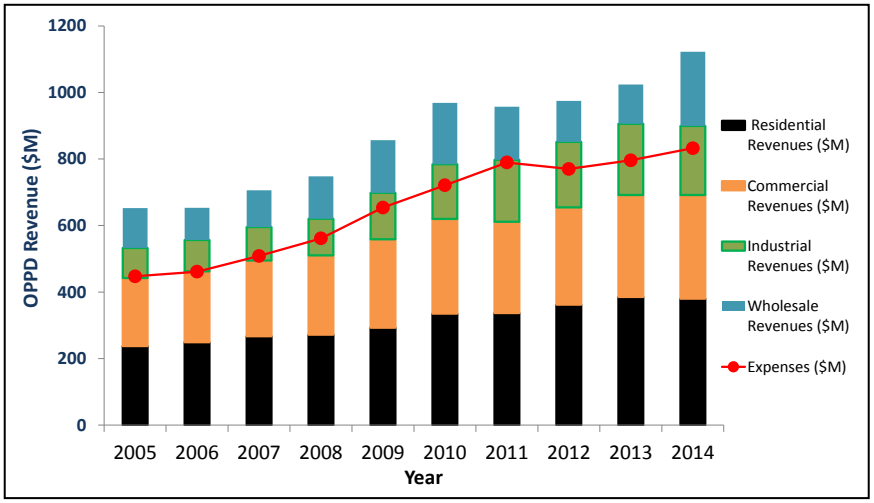
Issue Brief prepared at the request of Omaha Together One Community (OTOC)

Compiled by Kay Carne with input from numerous energy and environmental experts

Our community wants and needs a stable, financially sustainable electric utility to keep our economy going strong. We recognize that OPPD plays a critical role on our community, and they should be recognized for their great work in safety, reliability, affordability, and for their future plans to greatly expand wind power generation. However, OPPD has proposed an increase in the fixed fees for residential customers, increasing to around $35 by 2019. Proposals for increased fixed fees are becoming common across the U.S., but $35 would be the highest fee in the U.S. These fixed fee proposals are being rejected by many regulators as well as the Association of Consumer Protection officials that represents forty states and the District of Columbia. Increases in fixed customer charges are unfair and disproportionately impact low-income customers, discourage energy savings, and should be rejected, as discussed in more detail below. Smart approaches to rate design exist, that disperse cost in a fair and equitable way, while promoting energy conservation, and these alternatives are also presented below. Finally, it is important for OPPD's Board Members to judge any proposed change to OPPD's rate structure by a set of publically known values and principles, such as the principles below. To start, a slice of OPPD's financial information is presented to provide a high level view of its financial situation.

OPPD Financial Statistics[1]

Figure 1 OPPD Enjoys Positive Revenue Growth Year after Year



Over the past decade (2005-2014), OPPD's four main customer classifications (residential, commercial, industrial, and wholesale) have each, and collectively, produced positive revenue growth as shown in Figure 1.

However, OPPD's expenses also continue to grow.

Nonetheless, OPPD continues to produce positive net income year after year. **There is no revenue crisis.**

Figure 2A Residential Sector Growth

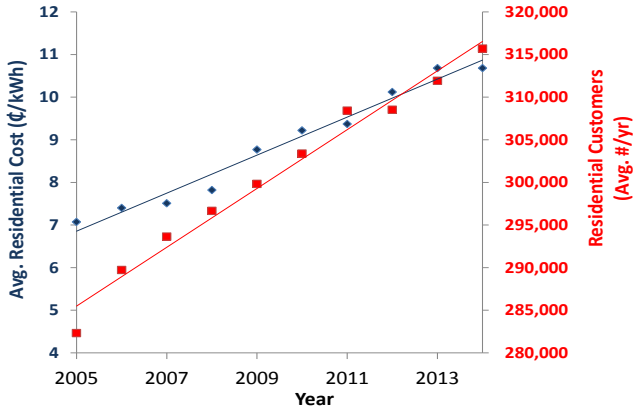
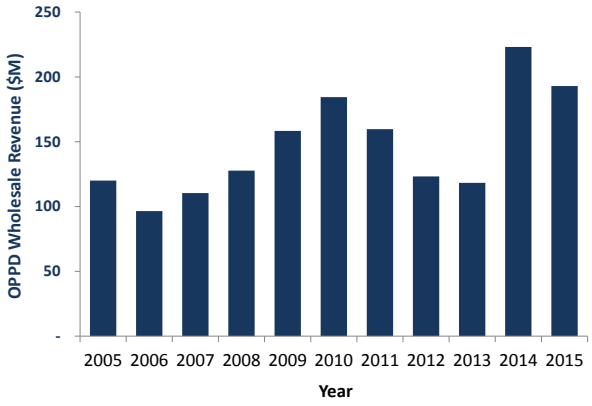


Figure 2B Wholesale Sector Growth



The residential sector brings OPPD the most revenue (Figure 1) due to 1) increasing customer base; and 2) increasing consumption rates (Figure 2A). The wholesale sector saw a significant revenue increase in 2014 before decreasing in 2015. Some of the increases observed in this sector are attributed to significant increases in the quantity of energy sold.

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OPPD describes the "rethinking rates" plan as revenue neutral. If the plan is revenue neutral and historical data shows that energy sales are in fact increasing, why is this fixed fee increase necessary? Regardless of the driving force for the rate proposal, fixed fees are not the answer for our community.

Reasons fixed fees are unfair and a bad idea for the Omaha community:

1. **Social Equity (Low-income customers will pay more) -** Low-income households in this community have lower bills than high-income households (Nebraska Energy Burden Study, UNO). This proposal increases bills for low users (often low and fixed income) and decreases bills for the high users (often the wealthy). OPPD has indicated that 6 of 10 low incomes customers will be adversely affected by this billing change. Additionally, lowest users, which may very well be those living in small homes or apartments to manage best their finances, will be seeing the highest increases – increases $250 or more per year. *The poor will bear the most significant impact of fixed fees, and pushing our poor further into poverty is more than an area of shared concern, it should not be acceptable rate design from a public utility.*

2. **Conservation, Environment, and Poor Price Signals -** Fixed fees decrease the incentive to invest in energy efficiency or distributed generation because a lower saving per kWh results in a longer payback period to recover that investment. The fixed fee also discourages optimization of economic resources at OPPD because it guarantees revenue regardless of performance. These incentives and dis-incentives contradict OPPD's mission to provide affordable and environmentally sensitive energy services.

3. **Discrimination in the apportioning of costs –** OPPD claims that this solution "avoid[s] transfer of fixed costs to neighbors." This proposal fails to actually achieve a fair distribution of those costs, nor has it provided a cost of service study to identify how much it truly costs to serve each meter. This proposal divides some set of customer, distribution and transmission costs equally by the total number of residential meters. Dividing transmission and distribution costs evenly per meter is not an accurate reflection of cost sharing because serving different customers literally costs different amounts for many reasons. For example:
    a. Rural transmission/distribution cost more than urban.
    b. Transmission/distribution for apartments costs less per meter than a single family home.
    c. Costs for the transmission/distribution built decades ago have been recovered while costs in newer neighborhoods have not been recovered and have different costs than the historic investments.
    d. Transmission/distribution infrastructure is built to serve demand needs, both in location and size of demand. For example, a customer with a meter that has a demand of 50 kW has very different infrastructure needs when compared to a meter that has a demand of 5 kW.

This is not a suggestion to apportion costs based on location or otherwise, but a statement that dividing costs equally doesn't make sense. Apportioning these costs in the kWh rate has historically distributed these costs based upon use level for residential customers. There is no basis for changing how these costs are distributed until this method is improved upon by using smart meters (as discussed below in alternatives).

4. **Unprecedented Fixed Fee –** OPPD has not demonstrated a need to raise its fixed charges to the highest in the United States. The highest fee a comparable size utility has nationally is $19, and this is a recent controversial change in Wisconsin. As discussed above, the financial issue presented by OPPD (flat or declining energy sales), is not supported by OPPD annual report data.

5. **Solar Tipping Point -** Fixed fees may be setting the utility up for a sudden tipping point when the cost of solar and batteries make abandoning the grid a viable option for thousands all at once. A simple increase in kWh rates would not result in this sudden tipping point, because each household uses different amounts of electricity, and thus has different payback periods.

6. **Higher costs to comply with the Clean Power Plan –** Higher fixed charges and lower kWh rates will cause more energy to be used, and thus make compliance with the Clean Power Plan more difficult and more costly.

Alternative Rate Structuring / Options to Address OPPD profits

There are many other rate restructuring options that OPPD should evaluate to address current and future market challenges. Increases in fixed customer charges have been strongly rejected, reduced and discouraged by regulators and consumer advocates nationwide. The following are ten other pricing options that should be evaluated carefully as more of a comprehensive assessment of rate structure. This is not an exhaustive list, nor has each option been evaluated in detail for OPPD.

Smart Meters
The future is smart meters. The entire industry knows this, and there are many benefits from transitioning to smart meters. The options above should only be considered if analysis shows smart meters are clearly not an option for OPPD at this moment. We understand smart meters are an investment and that OPPD replaced meters a little less than ten years ago. We would encourage at least a pilot program and possibly optional opt-in rate structures utilizing smart meters.

After Smarter Meters are installed

1. **Use Time-of-Use pricing –** Charge differently for day vs. night power or peak time vs. the non-peak time during a day and between seasons. This will more accurately reflect the cost to deliver the power during a specific period of the day/ specific season. Spreading usage and demand over the day uses infrastructure more effectively and allows customers to adjust behavior to price signals if they so choose. (This is used for California customers PG&E and Southern California Edison, for Florida Power & Light and many others.)

2. **Critical peak pricing –** Utility would recognize certain hours where costs are driven up, customers are notified shortly in advance of higher pricing during utilities peak demand. Notification would be made a day before, or in emergencies a few hours before, and price per kWh would be a defined amount higher during this notified "critical peak period" (An option for Minnesota Power, San Diego Gas & Electric, and others.)

3. **Residential Demand Charges –** Charge a specific fee based on the highest demand for an individual meter. The cost to deliver power, including transmission and distribution built, are based on the expected maximum power needed at any point during the year. This pricing is currently used for large commercial customers at OPPD.

4. **Real-time pricing –** Day ahead or actual time pricing for consumers based on wholesale market prices. This program sends direct price signals based upon actual power prices hour to hour. Real-time pricing allows price signals to guide usage to time periods where renewables (like OPPD's wind energy) are essentially providing free fuel, allowing customers to use more clean energy sources in an economically efficient manner. (An option for ComEd customers in Chicago and likely others.)

Since OPPD does not have smart meters installed for residential customers, these are the options available to be discussed for the near term.

Before Smart Meter investments

5. **Flatten the declining winter block rate –** Winter rates drop off to 6.45 cents after the first 1000 kWh per month for most residential customers and to 6.25 cents after the first 3000 kWh for small businesses. Flatten these rates to charge the same amount regardless of the amount of use.

6. **Change the summer rates to an increasing block rate (winter too if desired) –** OPPD has joined the Southwest Power Pool, and the timing of purchasing electricity vs. generating electricity has changed. The cost to produce electricity is market dependent, and the higher the demand in the overall system, the higher the cost to produce. Thus, more demand increases cost. To keep demand low, an increasing block rate could create an incentive to conserve during the summer months when electricity is most expensive to produce and to buy at wholesale prices.

7. **Raise kWh rates** to increase revenue. Simple, understandable, historical precedent. This is a solution that would not disincentivize energy efficiency and distributed generation. It would give fixed, and low-income users more control over their bills, as they so choose. When rates are published, they are calculated with the fixed fee included to get an effective rate, so we shouldn't be afraid of raising rates overall. We shouldn't be giving the low-use customers (often fixed and low-income people) an effective rate of 14.6 cents and the high-use customers (often higher income) an effective rate of 10.6 cents, which is the result of a $35 per month fixed fee.

8. **Cut costs and programs –** Looking harder at costs instead of increasing the fixed fees. Cost cutting is occurring, but OPPD needs to go further in this area, with a continuous process of evaluating generation and operating costs annually. OPPD's fixed fees are already high at $10.25. The Wall Street Journal reported that basic service charges are typically "$5.00 or so" in a story titled "As Conservation Cuts Electricity Use, Utilities Turn to Fees" published October 20, 2015, at http://www.wsj.com/articles/as-conservation-cuts-electricity-use-utilities-turn-to-fees-1445297729

9. **Improve the residential heat pump incentive.** A more significant decline block rate for heat pump users could incentivize the conversion of residential homes from natural gas to geothermal or air source heat pumps, increasing OPPD revenue during the non-peak seasons.

10. **Explore alternative revenue streams.** OPPD already offers some other service offerings such as in-home electrical protection, surge guard, and product bundling. OPPD could continue to expand and grow such alternative service offerings. Could OPPD offer to own distributed solar generation in the service territory, and thus be able to guide the placement of that solar in locations that would benefit the grid infrastructure the most? There are many directions this alternative could go.

OPPD should delay changes to its rate structure, including dropping the recommendation for fixed fee increase, and move to adopt a set of rate making principles that will guide a much more complete assessment of rate design options. Some suggest principles include:

1. The customer experience should be simple, practical and understandable.
2. Rates should keep the utility financially viable.
3. Customer bills should be relatively stable, or provide stable billing options.
4. Rates should fairly apportion the costs to serve customers, and should not unduly discriminate against any customer or class. Rate design should look at a complete understanding (positive and negative) of cost differences between customers, including distributed generation customers.
5. Price signals should encourage investment in assets that optimize economic efficiency, improve grid resilience and reduce environmental impacts.