



AD HOC COMMITTEE MEETING #2

PRESENTED BY:
Chad Hoopingarner
Vice President of Financial Planning

October 19, 2023
Informational Update

AGENDA

- **Rate Setting Process**
- **Who We Serve**
- **Cost of Service**
- **Rate Design**
- **Timeline**

The goal today is to distill down the information covered so we can identify key messages that you believe are important to focus on with the community, so they understand the need for a rate increase.

RATE SETTING PURPOSE

Three key areas:

1. **Cost of Service** – Costs to serve each rate class
2. **Revenue Requirements** – Cost of running the business in the next three to five years
3. **Rate Design** – Revenue recovery structure



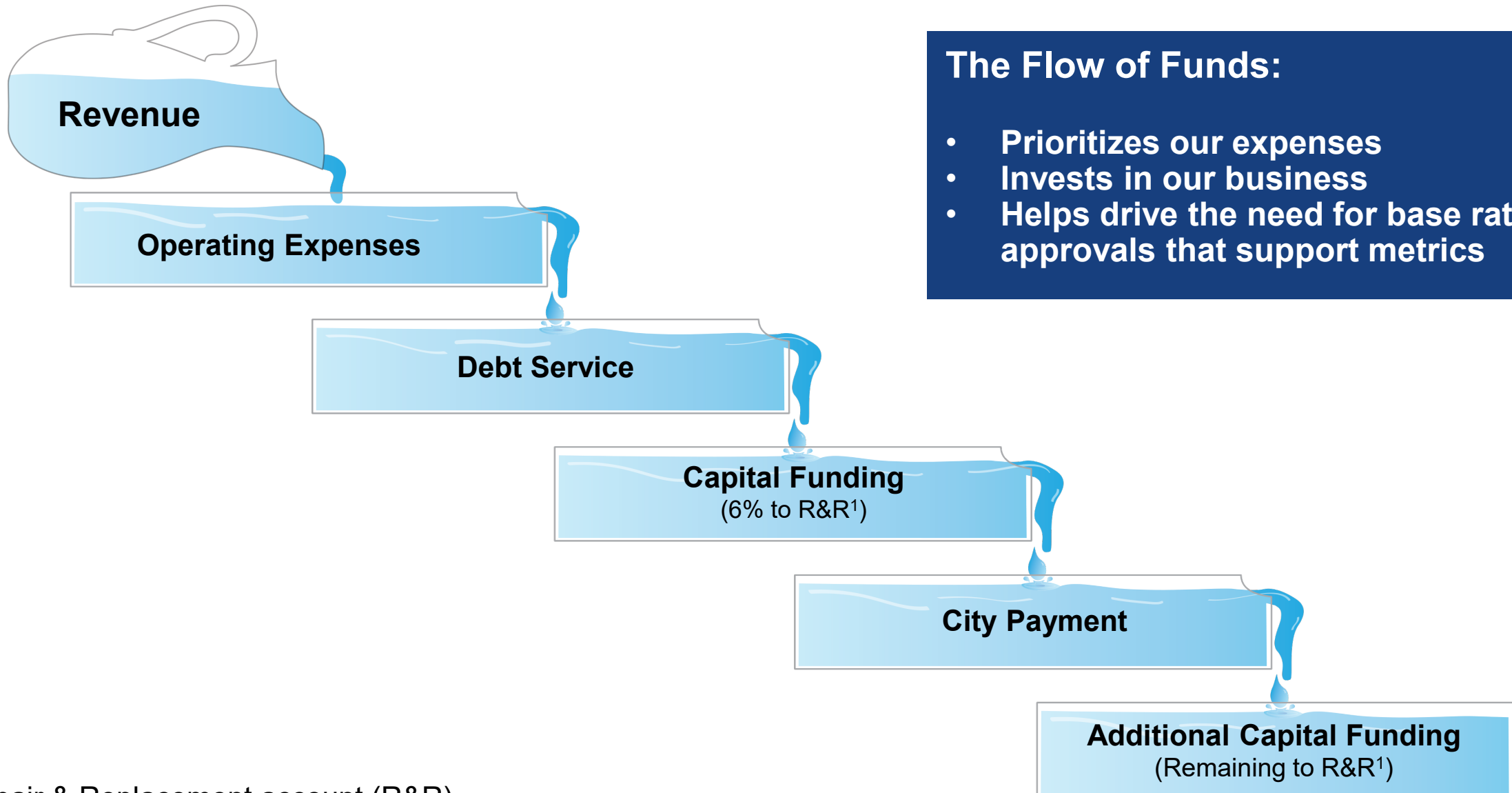
To protect investments and provide the services that the community has prioritized we must set a rate sufficient to cover our revenue requirements.

OPERATING MODEL

- Our retail service is a locally regulated **cost recovery** business
- **Every dollar we spend** on behalf of the community **ends up in customers' bills**
- We do not generate “profit”
- This model is a unique advantage of municipally owned utilities



MANDATORY USE OF REVENUE



The Flow of Funds:

- Prioritizes our expenses
- Invests in our business
- Helps drive the need for base rate approvals that support metrics

1. Repair & Replacement account (R&R)

BUDGET PROCESS

Our annual budget process includes:

- **Revenue forecast**
- **Budget** including the increasing cost of goods, ways to be more efficient with existing resources, and forecasted projects needed to deliver on what our community has asked of us
- **Budget > Revenue forecast = Rate support** is needed

The cost to protect investments and provide services the community has prioritized require a rate increase at this time.

WHO WE SERVE

We serve more 900,000 homes and business.



LARGE & INDUSTRIAL
2,042 (~1% of total)



84,122

SMALL & MEDIUM
(9% of total)

RESIDENTIAL
827,338
(90% of total)



The cost-of-service study ***is***...

- ***Backward looking***
- A determination of the total cost of providing service to each individual customer rate class
- The recovery of the total costs of each individual customer rate classes
- A comparison of actual to recovered cost by each individual customer rate class
- A snapshot of a utility's cost structure

CUSTOMER PRICING - RESIDENTIAL

Total cost to serve	A	\$1.33 Billion
Total usage (kWh)	B	9.9 Billion
Cost to serve per kWh	$A \div B$	13.4 ¢/kWh

Total revenue	C	\$1.24 Billion
Total usage (kWh)	B	9.9 Billion
Price per kWh	$C \div B$	12.5 ¢/kWh

The price paid by residential customers is less than the actual cost of to provide them with service.

CUSTOMER PRICING - BUSINESS

Total cost to serve	A	\$1.22 Billion
Total usage (kWh)	B	12.1 Billion
Cost to serve per kWh	$A \div B$	10.1 ¢/kWh

Total revenue	C	\$1.32 Billion
Total usage (kWh)	B	12.1 Billion
Price per kWh	$C \div B$	10.9 ¢/kWh

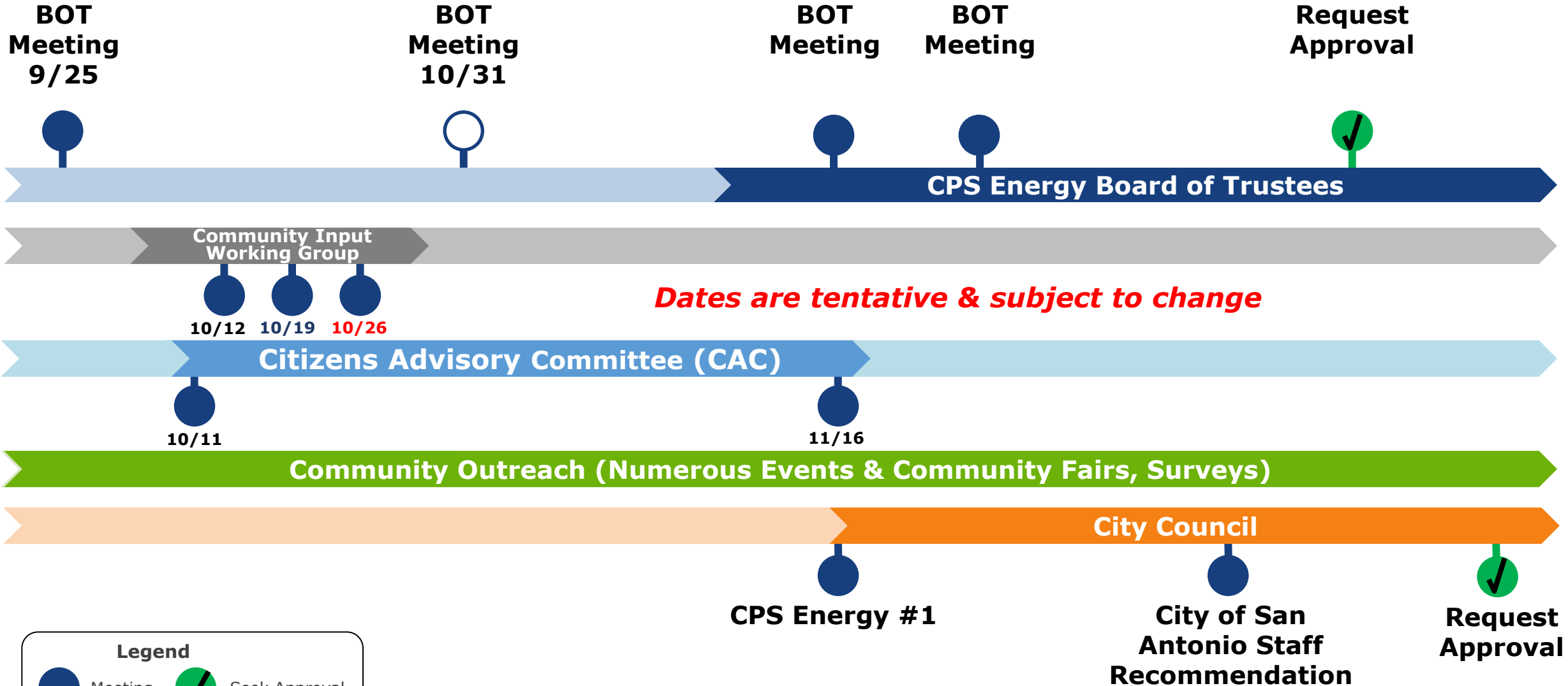
The price paid by commercial and industrial customers is above the cost of service.

Here are some of the resources in our discussions with the Rate Advisory team and their survey results:

- [Cost of Service Study, FY 2022](#)
- [Legal Review of Laws Governing MOU Rates](#)
- [Rate Design Conversion - Benchmarking Texas Utilities](#)
- [Our Customer Base](#)
- [Bill Relief Through Customer Assistance Programs](#)
- [Rate Decoupling](#)
- [Energy Conservation Presentation](#)
- [Affordability Through Demand Management](#)
- [Survey Results](#)

ANTICIPATED TIMELINE

CONTINUED COMMUNITY DIALOGUE





THANK YOU



APPENDIX

REVENUE REQUIREMENTS

Revenue requirements include all of the things we need to operate our business



Load forecast



Fuel cost forecast



Regulatory cost forecast



Generation plan



Current or proposed rates



Retail revenue forecast



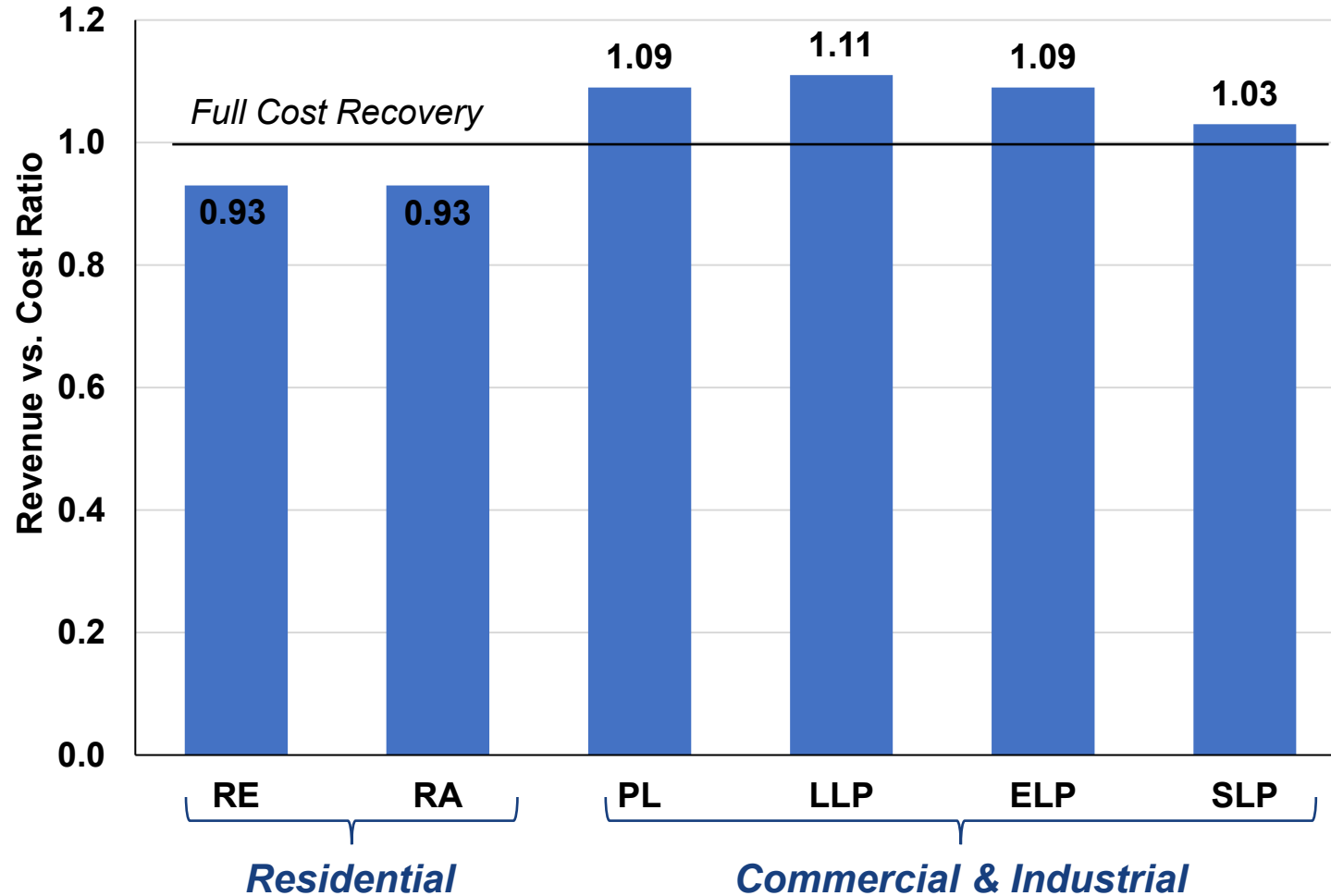
Wholesale revenue forecast



Financing plan

COST TO SERVE BY RATE GROUP

Revenue as % of Cost to Serve & Revenue by Rate Group



All commercial customers from small businesses (PL rate) to industrial customers (SLP rate), pay more than their share of costs.

Residential customers pay less than their share of costs.

- The cost of service study is a deep dive into electric & gas costs for a specific “test year”
- Every dollar used to run the business is accounted for including operations & maintenance, administrative & general, cash spent on infrastructure, payments on outstanding debt, fuel, regulatory, city payment, labor & others
- We use the Federal Energy Regulatory Commission (FERC) system of accounts to collect cost data
- We also collect & study detailed customer data including energy usage, demand, quantity of bills & others
- All costs are functionalized to Generation, Transmission & Distribution & allocated to customer groups

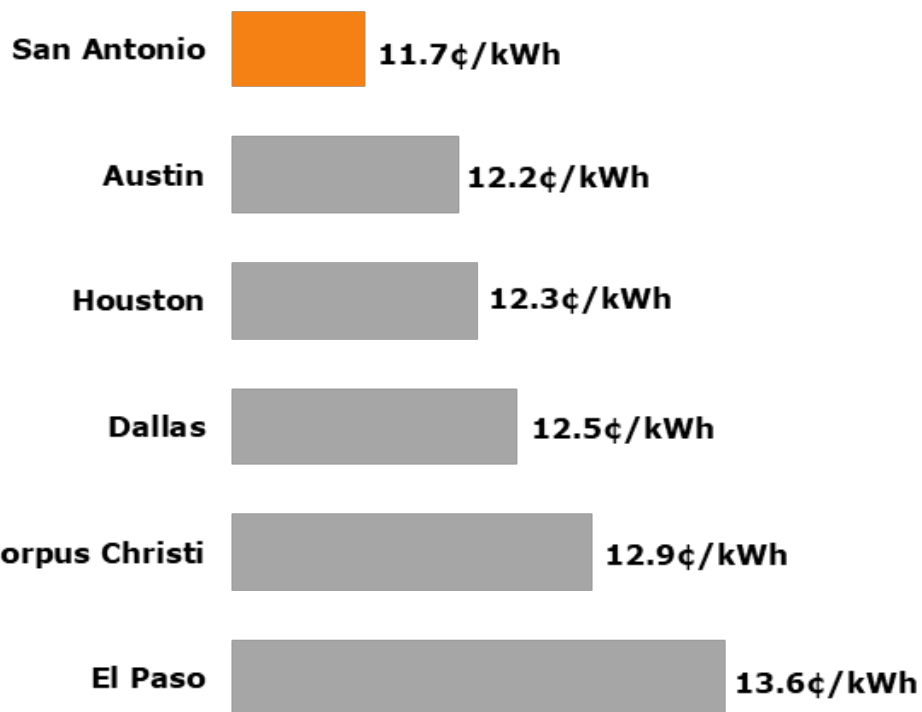
- Significant time is put into “normalizing” all aspects of the study so that the data reflects a typical, average year; as a result, these studies are applicable for several years (~3-5 years)
- Our current cost of service study is based on our fiscal year ending 2022 (i.e., FY2022)
- The COS study is extremely complex & takes ~6 months to complete
- Our last study was completed by the Brattle Group

TEXAS CITIES SMALL COMMERCIAL ELECTRIC PRICE COMPARISON



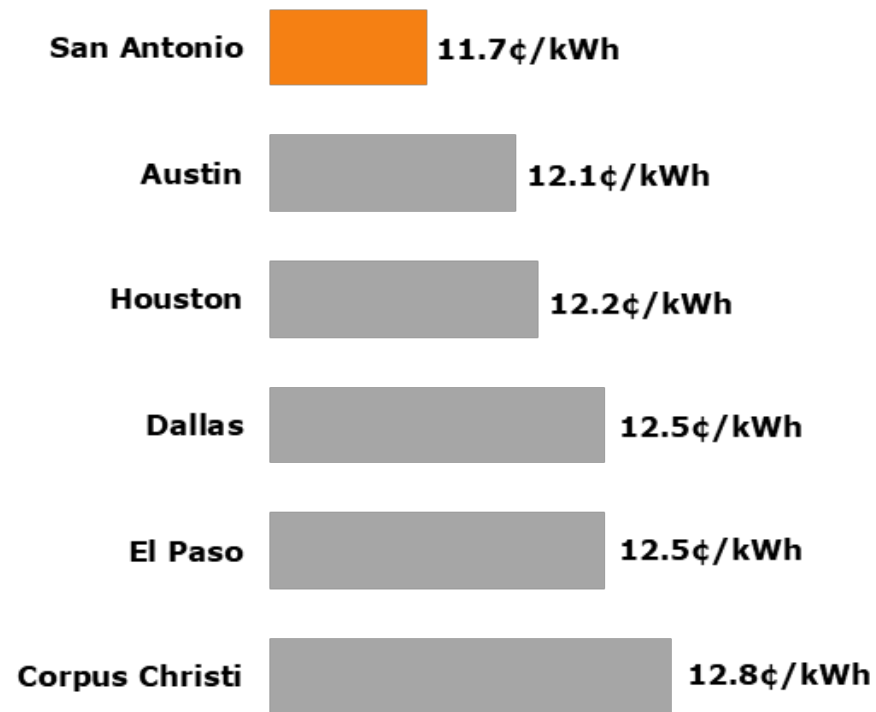
BROKER DATA, TRAILING MONTHS ENDING SEPTEMBER 2023¹

SMALL POWER EQUIVALENT (PL) Median Use



PL based on an average of 7 kW & 1,200 kWh per month

SMALL POWER EQUIVALENT (PL) Average Use



PL based on an average of 19 kW & 5,475 kWh per month

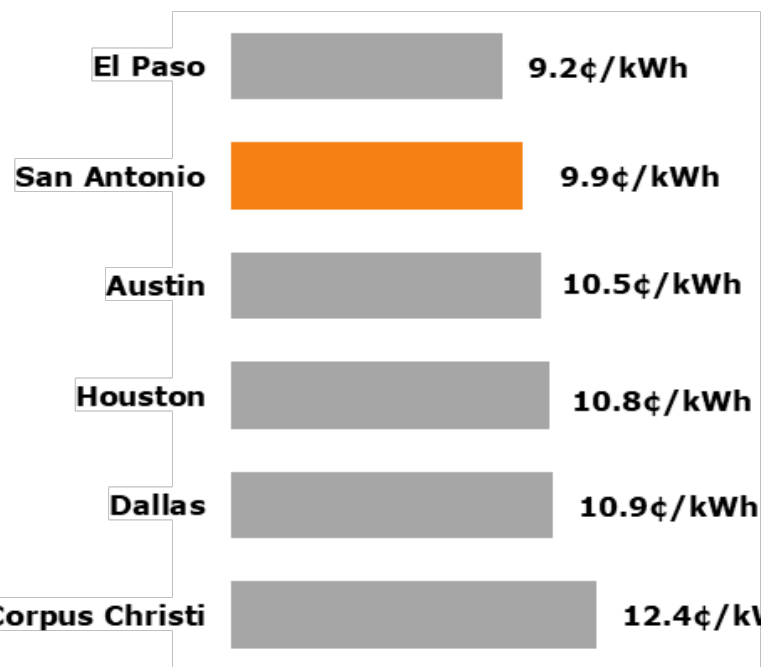
(1) Deregulated market prices are calculated based on broker-provided data plus wires charges obtained from the different websites

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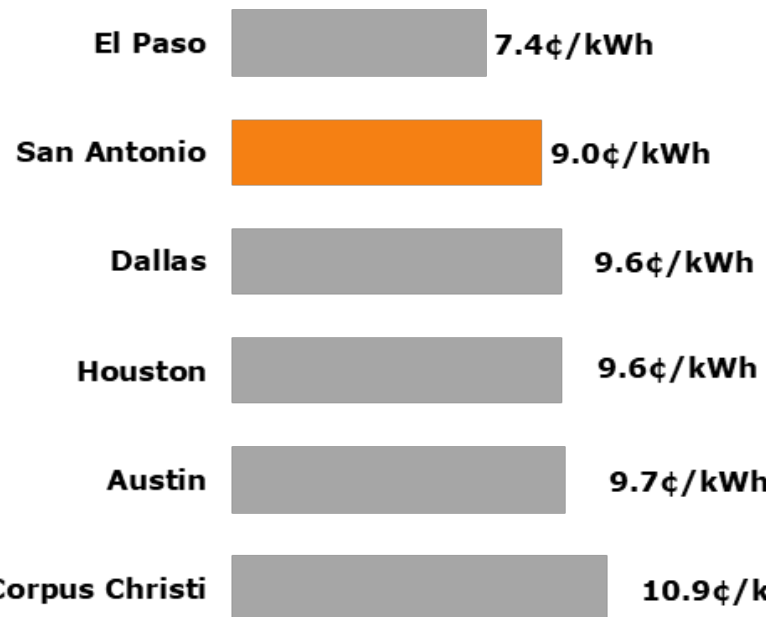
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LARGE POWER EQUIVALENT (LLP)



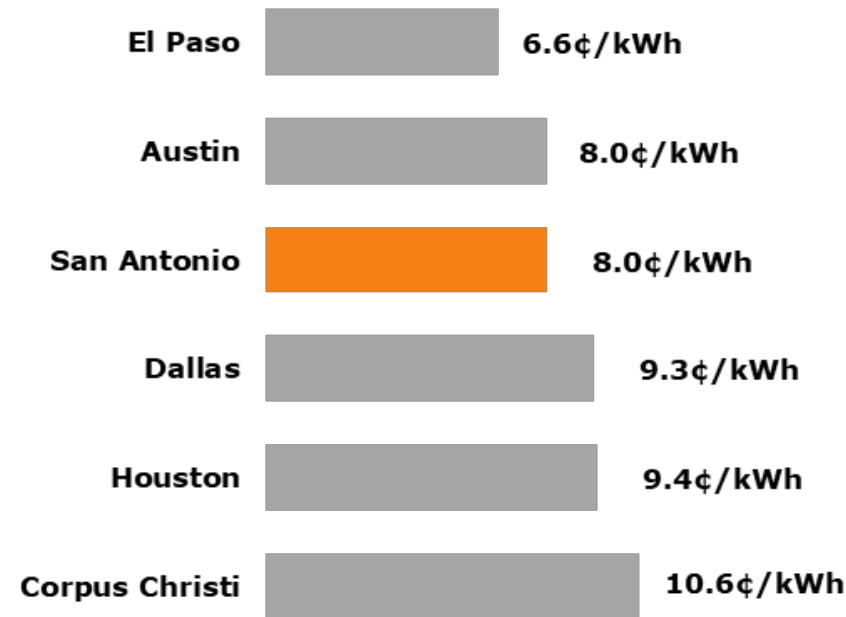
LLP based on an average of 309 kW & 126,481 kWh per month

EXTRA LARGE POWER EQUIVALENT (ELP)



ELP based on an average of 1,805 kW & 908,175 kWh per month

SUPER LARGE POWER EQUIVALENT (SLP)



SLP based on an average of 10,010 kW & 5,614,262 kWh per month

(1) Deregulated market prices are calculated based on broker-provided data plus wires charges obtained from the different websites