

**2018 ELECTRIC RATE INCREASE
FREQUENTLY ASKED QUESTIONS
FOR
CITY OF GUNNISON ELECTRIC CUSTOMERS**



PUBLIC WORKS DEPARTMENT

February 20, 2018

FREQUENTLY ASKED QUESTIONS CONCERNING THE 2018 PROPOSED ELECTRIC RATES:

Question: I understand that an electric rate increase is being proposed for the City of Gunnison electric customers? Why is an increase necessary?

Answer: Providing quality electricity is ever changing and driven by technological innovations, a demand for sustainability, and evolving customer needs and preferences. To properly maintain assets in order to offer efficient, reliable and clean energy choices, new rate designs are needed to achieve multiple objectives. These objectives include the need to allocate costs equitably and to allow utilities to fairly recover the revenue required to maintain a system that provides safe and reliable power. Additionally, an assessment of our equipment and infrastructure has shown a dire need to upgrade and replace critical components.

Question: How was the amount of the rate increase determined?

Answer: The City of Gunnison hired NMPP (Nebraska Municipal Power Pool - a nonprofit organization), in earlier 2017 to perform an evaluation of the electric infrastructure and to provide a solid and responsible game plan to ensure that the City of Gunnison is a good steward of our utility and can provide the best possible service to our customers. NMPP assessed yearly operational costs, power costs, and needed capital improvements. As a result of the cost of service study, NMPP has recommended an adoption of a new reserve policy to ensure that there is enough cash in reserve to cover an emergency or catastrophic failure and a new rate structure that adequately covers the costs of providing safe, reliable, efficient electric service to our customers. The study projects revenues needed over a five-year period takes into account a transformer upgrade that is slated for 2022 for one of our two substations.

Question: How does the City of Gunnison pay for the cost of electricity and infrastructure to provide its electric customers with service?

Answer: The City of Gunnison Electric Department is an enterprise fund and is run much the same as a business would be. Electric Department funds are segregated from other City of Gunnison accounts with the intent that revenues generated by the Electric Department are devoted solely to funding all operations of providing electric service to its customers. No other taxpayer money is used to subsidize this department. The City of Gunnison purchases wholesale electricity from MEAN and WAPA and the portfolio is 40.6% renewable energy sources.

Question: I am a business owner, why is my commercial electric rate going up more than my residential rate and why is there an additional \$11.25 being added to the monthly service charge?

Answer: Typically, a commercial customer requires more infrastructure than a residential customer. Many commercial customers require larger transformers, more advanced service (3 phase vs. single phase as an example), sub-station improvements, increased wire sizes, and sometimes different meters. Our residential rates are slightly higher than that of our commercial customers and with the current price structure, the utility is not recovering the extra cost associated with these extra investments. The current monthly commercial service charge of \$8.75 is considerably under cost of service, as well as drastically below state, regional, and national averages for commercial accounts. This service charge will increase to \$20.00 to recover some of the fixed expenses associated with this customer class. Commercial business rate payers enjoy electric rates that are not only one of the lowest in the state of Colorado, but in the region and nationally.

Question: What are demand charges and flat rate charges?

Answer: There are two parts to your electrical bill. The first is a **demand charge**. A demand charge is traditionally for commercial and industrial accounts. The energy industry has an obligation to provide service no matter how large the demand for electricity is, many costs are based on the peak demand or 'largest instantaneous energy use' the city uses, including their wholesale rate and transmission costs. In the energy industry, it isn't just how much energy is consumed, but when and how much peak energy is needed on the system at any given time. Demand charges account for this peak use for large customers who drive many of Gunnison's wholesale and transmission costs.

A **flat rate charge**, sometimes known as a base charge or customer charge, is a minimum charge that all customers are required to pay regardless of usage. There are costs associated with electricity that are not related with how much energy is consumed. For example, a meter still needs to be read and a distribution system needs to be maintained even if there was little or no energy consumed for a period of time. The flat rate takes into account the expenses not associated with the actual commodity usage.

Question: Is it true that our residential customers have been subsidizing commercial customers?

Answer: It was found in the cost of study that some rate classes were subsidizing others. Even though the city needed approximately 7.1% overall increase, our residential customers were found to be paying more than their fair share. Therefore, to make it equitable, flat rates for commercial based accounts (businesses) increased more than for residential customers.

Question: Why not have an across the board rate change like last time? These new rates seem confusing.

Answer: The entire electric industry is switching to a Fixed Cost Recovery model. In 2015 the Municipal Energy Agency of Nebraska (MEAN), the supplier of Energy for Gunnison, converted its rate structure like many other utilities to recover fixed costs, including debt on generation ownership and capital investments. This shift is widespread and needs to be reflected in the city's retail rates to avoid subsidization between customers. Right now with such a low monthly charge, and the conversion of our wholesale rate structure, low load factor (inefficient) customers are getting subsidized by high load factor (efficient) customers. The rate design is trying to alleviate this discrepancy. An across the board rate change would enable this discrepancy further.

Question: How much in cash reserves does the city have for the electric utility?

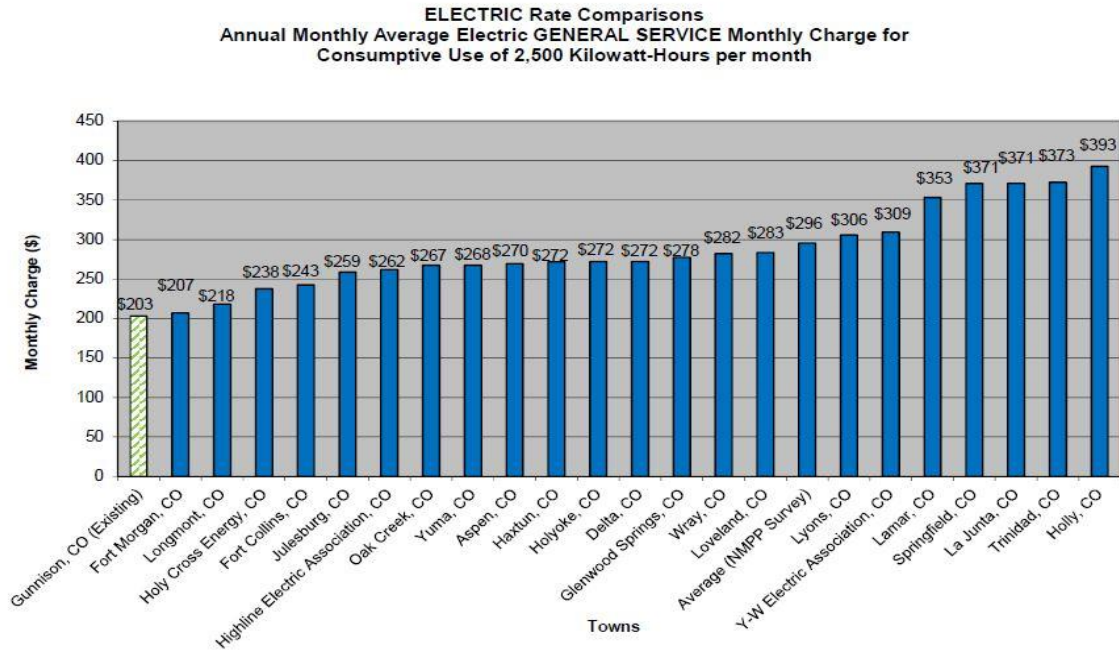
Answer: Our reserves went as low as \$600,000 at the end of 2016 which seems like a lot but is critically low for a system our size. NMPP's cost of service study suggested the City of Gunnison has approximately \$2.2 million in reserves based on an industry standard cash reserve policy. In addition, the City of Gunnison is saving money to purchase a replacement power transformer for the Gunnison Main Substation in 2022 which will cost around \$1 million which includes installation, engineering, and testing.

Question: Will portions of the money from the rate hike go into reserves as well?

Answer: The City of Gunnison does not adjust our rates just to put money into reserves. Our goal is to adjust rates so the city can maintain safe operations, keep up with capital projects, and have reliable power. In the past, it was required to take money out of reserves in order to accomplish this. By not financially planning for capital maintenance and replacement, there is a risk of not having adequate resources to replace old equipment or adequate reserves for unforeseen repairs and/or replacements.

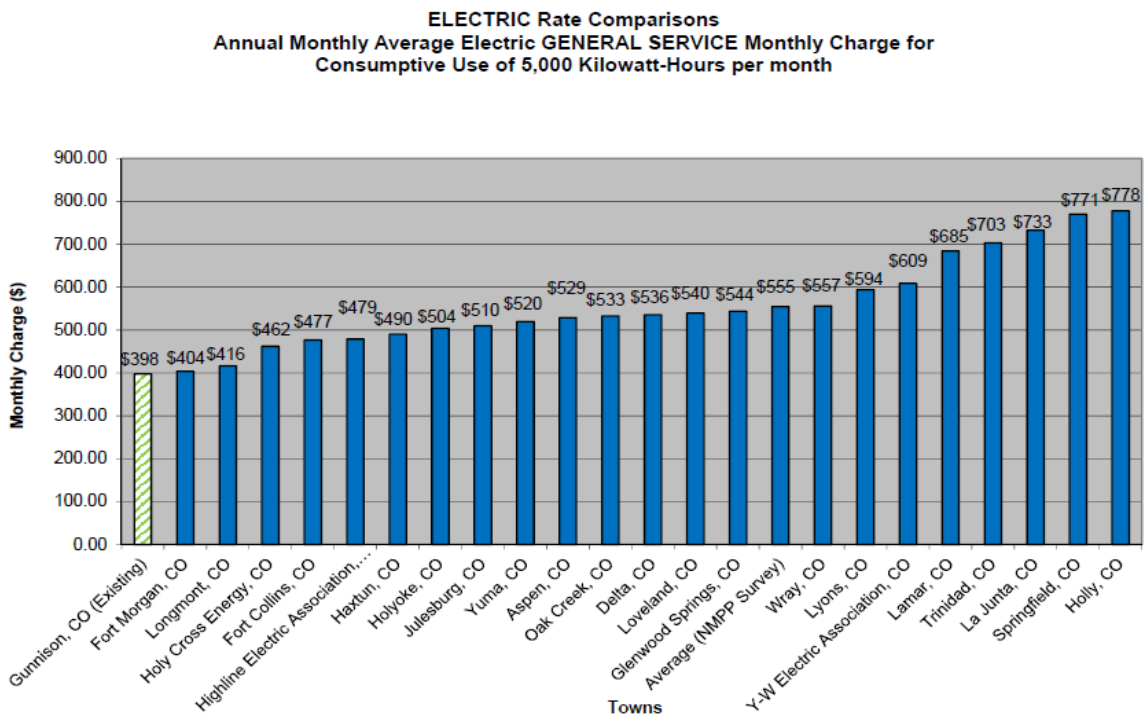
Question: How does Gunnison’s electric rates compare to our neighbors?

Answer: The City of Gunnison enjoys very competitive rates. These rates are not only some of the lowest within the State of Colorado, but in the region and nationally. For comparison purposes please refer to the following graphs.



Source: NMPP Energy 2017 Typical Bill Survey

2/9/2018



Source: NMPP Energy 2017 Typical Bill Survey

2/9/2018

Question: Can you tell me the last time electric rates for the City of Gunnison increased?

Answer: The last increase was a 5% across the board increase in January 2017 and was due to a rise in wholesale power costs the city pays. The NMPP cost of service study revealed inadequacies in our current rate structure and reserves. The rate increase the City of Gunnison is proposing this year should help build reserves and enable infrastructure upgrades which in turn should alleviate the need for surprise rate increases due to catastrophic failures of equipment.

Question: I heard that Gunnison has participated in a housing energy efficiency program, is this true?

Answer: The city has partnered with Colorado Outreach to offer income qualified home assessments. These assessments may lead to energy efficient upgrades to these homes. Please contact the Gunnison Valley Housing Authority at 970-641-7901 or email info@gvrha.org for more information.

Question: When can I come and voice opinion and when do these rates go into effect?

Answer: Proposed rates were mailed out with the utility billing on January 24, 2018. A Public Hearing – 1st reading of the ordinance is scheduled for April 10th. A 2nd reading is scheduled for April 24th. Rates are scheduled to go into effect May 10, 2018.

2018 PROPOSED RATE STRUCTURE

Electrical Rates	Current 2017 Rates	Proposed 2018 Rates
<u>Residential:</u>		
Monthly Service Charge		
Flat Rate	\$8.75	\$10.50
Time of Day Rate	\$12.84	\$17.00
Usage Charge	\$0.08271/kWh	\$0.08395/kWh
Time of Day Rate		
On-Peak	\$0.09671/kWh*	\$0.10220/kWh*
Off-Peak	\$0.03405/kWh*	\$0.03954/kWh*
<u>Commercial:</u>		
Monthly Service Charge	\$8.75	\$20.00
Usage Charge	\$0.07783/kWh	\$0.08211/kWh
<u>City Government Service:</u>		
Monthly Service Charge	\$8.75	\$20.00
Usage Charge	\$0.07783/kWh	\$0.08211/kWh
<u>Western State Colorado University:</u>		
Monthly Service Charge	\$25.00	\$85.00
Usage Charge	\$0.05331/kWh	\$0.05782/kWh
Demand Charge	\$6.55/kWh	\$7.50/kWh
<u>Contract Lights:</u>		
Monthly Charge	\$8.40/fixture	\$9.25/fixture
<u>Wind Power Attributes</u>		
	\$1.70/100 kWh per month added to usage charge*	\$1.70/100 kWh per month added to usage charge*

These rates and charges set forth herein, if approved and adopted on second reading or the required ordinance, shall be effective as of May 10, 2018, and thereafter.

Note from Management

Our customers are very important to us and in order to provide safe and reliable electric service it is a necessity to adjust rates from time to time. The cost of service study showed the need to increase revenues to avoid running out of cash and allowing for your municipally-owned utility to reinvest back into its system. The majority of these investments are needed regardless of commodity (energy) use. Even with the proposed rate increase, the City of Gunnison electric customers enjoy some of the lowest rates in the state. The City must charge equitably in order to provide you safe and reliable services today and into the future.

The City of Gunnison operates the electric department as an enterprise fund, meaning it is not subsidized other than what it charges for this service including any support from sales or property taxes. Engaging the professional services of NMPP to take a businesslike approach to rates is responsible and fits in with our business plan. Having accurate cost analysis and expense projections further allows us to be good stewards of affordable electricity well into the future. The City of Gunnison stands behind this rate design as fair, non-discriminatory, and reflective of not only Gunnison specifically but the electric industry as a whole. With that said, the city council is the rate making authority for our utility rates and although we can run different analysis or structure various rate designs, the facts above do not change.

Thank you for the opportunity to serve you.

Sincerely,

Team Members

David M. Gardner, PE

Public Works Director

&

Will Dowis

Electric Superintendent