

HOW PUBLIC POWER SETS ELECTRICITY RATES

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PUBLIC POWER UTILITIES

identify electricity rates based on cost of service while keeping customer needs and the community's objectives front and center.

As community-owned utilities, they do not answer to remote shareholders and are not driven by a profit motive. Revenues are invested right back into the utility and community.

Rate-setting typically follows a five-step process.

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If a utility is concerned about how a rate might affect a certain set of customers (e.g., small businesses), it can develop a rate for that group of customers instead of adjusting a rate that would affect a full customer class.



1. ADD UP ALL THE COSTS. Every few years, utilities conduct a cost of service study to determine the revenue requirement — how much revenue is required to maintain financial stability. The costs are separated into four areas: power supply, transmission, distribution, and customer related.



2. DIVIDE REVENUE REQUIREMENTS by customer class — commercial, industrial, residential. The cost of service study identifies how and when each class uses energy, and how the utility incurs costs from each class. The study identifies the amount to recover through customer, demand, and energy charges for each customer class, and how costs vary by time of day or season. This amount is then compared with the rates for each class.



3. FACTOR a rate adjustment strategy into a financial plan. The plan takes input from management and the utility governing body (the board or city council) and lays out a strategy for how rates should be implemented over the next three or five years. The plan ensures adequate revenues are recovered for each class of customer and explains how each rate component (customer, energy, demand) should vary over time.



4. BALANCE the recommended rates with the governing body's input and community objectives. A public power utility presents the suggested rate design at a board or city council meeting, and community members may also attend. The governing body decides whether the proposed rate structure meets the needs of the community and the utility's revenue requirements.



5. ADD IN CUSTOMER FEEDBACK. Rates approved by the board are published for a rate hearing where citizens can again advocate about the rate in front of the governing body, which then makes a final decision on the proposed plan.



The newly set rates go into effect on customers' monthly bills.

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