1. **What is the proposed retail rate increase?**

The proposed revenue increase is 3.9% effective September 1, 2015. Rate increases by rate class range between 1% and 7%, with the residential increase at 4.6%. The last increase was in January 2012, over three years ago.

Here are other highlights:

a) Power costs are the primary driver.
   - BPA is proposing a 7% wholesale power increase on October 1, 2015
   - Power costs are up $10 million from 2012 to 2015 becoming the primary driver of the increase
   - Power costs are expected to rise another $3.8 million in 2016
   - 2015 is shaping up to be a difficult water year due to the lack of snow and timing of river flows
   - Benton PUD’s latest revised estimate for 2015 is a $1.3 million loss

b) Despite this increase in power costs, Benton PUDs last retail rate increase was January 2012
   - Reserves have been used to avoid increases during this period
   - Reserves continue to be used to lower this revenue increase from 5.9% to 3.9%
   - Benton PUD reserves (expressed in days cash on hand) as compared to others are:
     - Lower than the median of other Washington PUDs
     - Expected to be within 10% of the median of nationwide utilities with Aa/A bond ratings by year-end 2015

c) Benton PUD’s average customer bills are below the median of comparable Northwest utilities
   - Below the median for nine consecutive years

d) The residential customer base charge will rise $4.55 per month to $15.60 (30 day month)
   - Benton PUD’s base charge will remain below the median of other Northwest utilities
   - The base charge increase is the entire increase (4.6%) for the residential customer class
   - Utilities are increasing base charges to better align fixed revenues with fixed costs
   - Aligning fixed revenues with fixed costs solves a fairness problem between customers that may arise when customers self-generate or when they leave the area for the winter
   - The base charge rate will be a daily rate instead of a monthly rate
   - Low income senior and disabled customer received a higher discount effective Jan 1, 2015

2. **Why is this increase necessary?**

Power costs have increased $10 million since 2012. Since power costs represent over 60% of Benton PUD’s total budget, it has a large influence on the retail rates charged to customers. The two most significant reasons for the increase in power costs are:

- The Bonneville Power Administration (BPA) provides the vast majority of the power Benton PUD sells to its customers. Back in October 2013, BPA increased the cost of the power it charges to Benton PUD by 5%. The Benton PUD Commission did not increase retail rates at that time, choosing instead to spend down cash reserves. Now, BPA is projecting another 7% increase in October 2015. Benton PUD’s proposed increase is roughly timed to coincide with BPA’s next increase.
Proposed Rate Increase for September 1, 2015
Frequently Asked Questions

- When Benton PUD has excess power beyond the needs of its customers, it sells the excess power to other utilities. This revenue is then used to “buy down” the retail rates of our customers. We are experiencing lower revenues from these excess power sales due to lower prices in the Northwest power markets. Further, 2015 is expected to be a poor water year leading to lower hydroelectric production. This means that Benton PUD may be required to buy additional power to serve loads at certain times rather than selling excess power.

Although not a major reason for the proposed September 1 increase, renewable energy requirements of the Energy Independence Act (Initiative 937) continue to add to power costs. To comply with the EIA in 2015, Benton PUD estimates it will spend $3.1 million on qualifying renewable energy or equivalent credits not needed to serve load, representing a 2.6% impact on residential customer bills.

3. How do Benton PUD customer rates compare to other Northwest utilities?

Benton PUD rates compare favorably to most Northwest utilities. Benton PUD regularly benchmarks its average customer bills to other utilities. This comparison shows that Benton PUD’s customers have a lower average bill than most other utilities (see graph below). For nine straight years this comparison has shown that our average bills have been below the average and median bills of comparable utilities.

Not only are Benton PUD’s average residential bills lower than most utilities, so are our average commercial bills.

4. Can Benton PUD continue to use cash reserves to avoid or mitigate this rate increase?

Yes. It is estimated that Benton PUD will use $5.5 million in reserves to buy down the proposed rate increase in 2015. A rate analysis conducted by a consultant for Benton PUD shows that revenues need to increase 5.9% to completely cover its costs in 2015, but staff has recommended that number be lowered to 3.9% and to use reserves to make up the difference.
Excess reserves can only temporarily defer a rate increase. It is important to note that annual power costs will continue to rise in 2016. Power costs are highly variable. It is possible that Benton PUD will need another 3% to 4% increase in 2016, but may be able to delay to 2017. If reserves were used to avoid an increase altogether this September, Benton PUD would expect that rates would need to increase at least 8% (or perhaps even more) in 2016 to catch up revenues with expenses. In addition, a delayed increase may hurt the District’s bond rating, an evaluation roughly equal in importance to an individual’s credit score.

During 2014, the District sought input from a customer Stakeholder Panel regarding retail rate strategies. We received input from our customers that more frequent, gradual increases are preferred to less frequent but larger increases. Since Benton PUD has not had an increase in over three years, staff is recommending a smaller rate increase now along with the continued drawdown of reserves in lieu of a larger increase later.

5. **How do Benton PUD reserves compare to other PUDs?**

Benton PUD’s reserves are lower than the median of PUDs in Washington based on the latest information available from a survey conducted by the Washington PUD Association (as of December 2013). Further, Benton PUD’s reserves have dropped since 2013.

In order to compare small and large utilities, the industry has developed a measure called “Days Cash on Hand.” This metric provides an apples-to-apples comparison of how much reserves utilities hold relative to their size. Bond rating agencies use this metric when determining a utility’s bond rating. The chart below shows Days Cash on Hand as of December 2013 as well as the bond rating for each utility. Days Cash on Hand of 143 days equates to $47.6M for Benton PUD. In addition to being lower than the median, Benton PUD’s reserves are lower than the majority of PUDs.

**Cash Reserves: Days Cash On Hand – Benton PUD vs. Washington PUDs**

(Source: Washington PUD Association Source Book for December 2013)
6. **Why does the proposed rate increase include an increase in the customer base charge for the residential class?**

   It is common in the industry that a utility’s costs are 50% fixed and 50% variable while rates are set to only recover 10-20% through a fixed charge or base charge. Benton PUD is no different. Many Northwest utilities are increasing their base charges to more accurately align fixed revenues with fixed costs. This alignment is necessary to avoid fairness issues between customers who install solar panels on their home vs. those who do not. Under today’s rate structure, solar customers can avoid fixed costs associated with “poles and wires” even though they continue to use the wires for energy when the sun does not shine as well as to sell their excess output to the utility. Put simply, utilities are raising the base charge to correct a long standing misalignment of fixed costs versus fixed revenues and to avoid a fairness problem in the future.

   For our residential customers, the base charge would rise $4.55 per month to a new monthly base charge of $15.60 (based on a 30 day month). This would be an increase of 4.6%, which is the entire proposed increase for residential customers. There would be no increase to the kilowatt hour rate. The new monthly rate of $15.60 would be lower than the $17 median of comparable utilities (see graph below).

   ![Residential Monthly Base Charge](image)

   Staff has also proposed that the monthly base charge be converted to a daily rate rather than a monthly rate. The daily rate would be 52 cents per day. The change simplifies prorating bills when customers open or close an account in the middle of a billing cycle. The daily rate will also enable a new program designed to help customers to stay current on their bill. This new program, involving prepay meter technology, is expected to be available within two years.
7. **What has Benton PUD done to mitigate the impacts of this increase to low income customers?**

Benton PUD has programs available for low income senior and low income disabled customers. Benton PUD’s low income discounts were recently expanded to provide even more assistance to qualifying senior and disabled customers.

- Effective January 1, 2015, a new 10% discount was added for qualifying customers, and the 20% discount was increased to 25%. Customers previously receiving the 20% discount automatically began receiving the 25% discount.
  - For a **Low Income Senior Discount**, the customer must be 62 years of age or older.
  - For a **Low Income Disabled Discount**, the customer or a member of the household must have a qualifying disability.

- The minimum discount for all three ranges is the customer’s monthly base charge. When the monthly base charge is replaced with the daily system charge, the minimum low income discount will be the amount of the daily system charge assessed for the billing period.