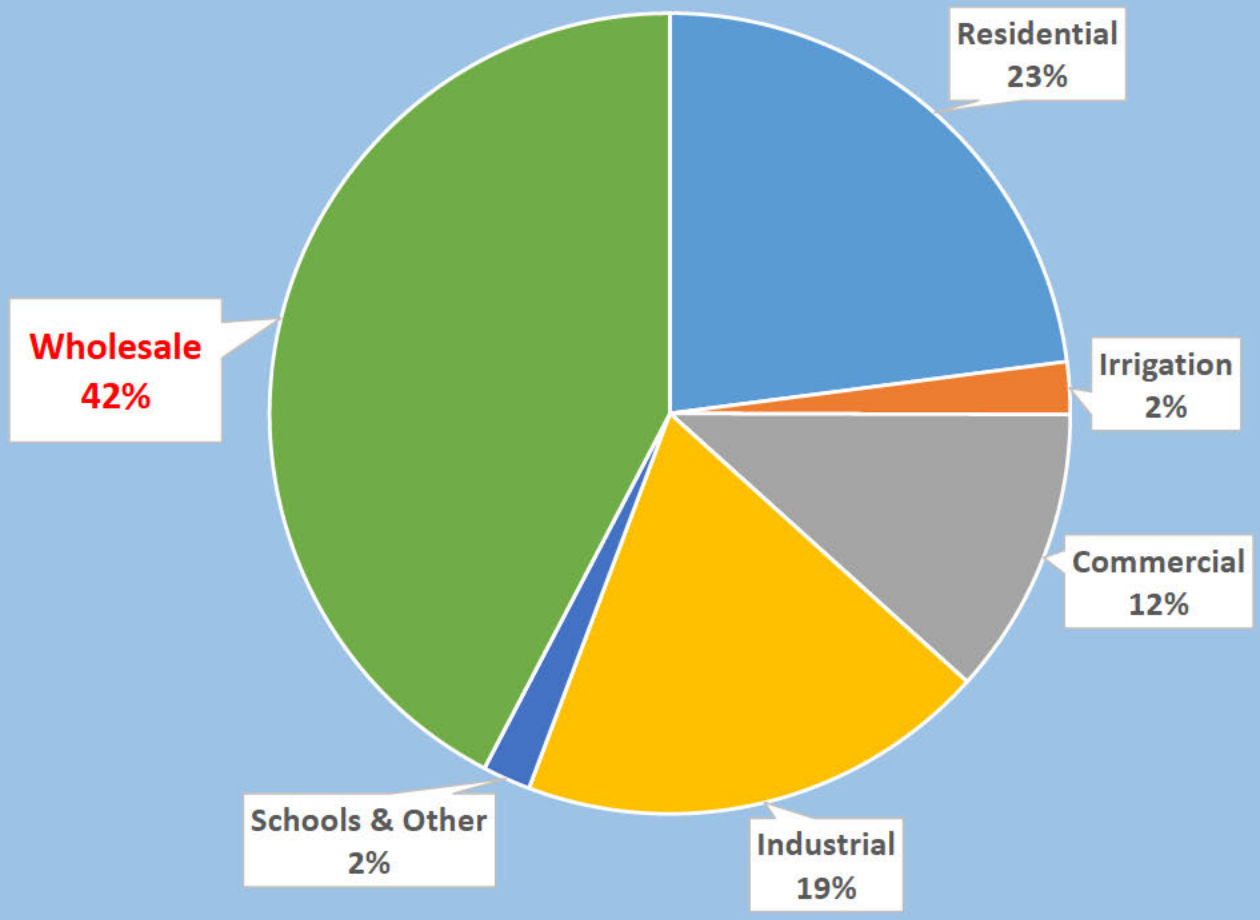
Proposed
Power Delivery Rate

March 22, 2021

Proposed Timeline

√ 1/25/2021	Introduce the components of the District's rate process and seek Board guidance. Potentially set rate hearing dates
√ 2/8/2021	Rate presentation
√2/22/2021	Rate hearing and consider public feedback
√ 3/8/2021	Continue rate hearing and consider feedback
4/12/2021	Recommendation and possible adoption on proposed rate

2020 Power Revenue



Subsidy - money granted by a public body to assist an industry or business so that the price of a commodity or service may remain low or competitive.

How do you know we are recommending an unsubsidized rate?

$19/MW	Proposed Delivery Rate
Plus $12/MW	Approximate Wells Power Cost
Equals $31/MW	Approximate Current Retail Rate

Port District Public Comment

Issues Relating to Rate Structure

1. Power Delivery vs. Power Supply Aggregation – The PUD's initial rate proposal appears to contemplate that in addition to providing power delivery service, the PUD would aggregate purchases of wholesale market power on behalf of the customer. Because many large sophisticated customers have their own internal power management capabilities and criteria, they will likely prefer to do their own power aggregation and purchasing. The PUD should be indifferent as to whether it or the customer fulfills the aggregation function, and like other regional utilities should offer two versions of its retail wheeling rate: with -or- without power aggregation service. Of course in either case there will need to be close coordination and cooperation between the PUD and the customer, and any power integration costs that the customer causes the PUD to incur should be paid by the customer. Only those customers utilizing the PUD's power aggregation service should pay the administrative costs associated with that service.

2. Transmission vs. Distribution Rate Components – The PUD's initial proposal has bundled its Transmission and Distribution costs together in development of the rate. Because some large customers take delivery at very high transmission voltage (and own and pay for their own delivery substations) they will only utilize the transmission portion of the PUD's system. It is fundamental to utility ratemaking that customers should only pay for that portion of the utility's facilities that are being used to provide service. Douglas PUD should offer a two-part Power Delivery Rate: one component reflecting transmission costs only, and one reflecting both Transmission and Distribution costs. This approach is consistent with the way that other regional utilities, including neighboring Grant PUD, have structured their Power Delivery rates. (As an example Grant PUD's Delivery rate Schedule 30 is $1.90 per KW-month for the transmission component and $3.12 per KW-month for the distribution component, for a combined rate of $5.02/KW-month. In addition to being appropriately divided in to two components, this is approximately 47% lower than Douglas PUD's equivalent proposed combined rate of $9.47 per KW-month.)

3. Fixed / Variable Rate Structure – The PUD is proposing a rate containing both a fixed ($/KW-month) and a variable ($/KWH) component. About 75% of the rate is fixed and 25% is variable. This is unusual for retail Power Delivery rates, which are typically almost all fixed price rates since the underlying costs (investment in transmission and distribution lines) are almost all fixed. It is unclear why the PUD is proposing the rate structure this way.

Issues Relating to Costs and Assumptions

1. Financing Costs – The PUD appropriately proposes to utilize its "weighted cost of capital" to compute the annual cost of its investment in Transmission and Distribution facilities for ratemaking purposes. However the PUD inappropriately states that its weighted cost of capital is 10.06%. The PUD also references a range FERC authorized "range of returns" between 7.42% - 10.02%. In the first place, Douglas PUD's cost of capital cannot be 10.06%, as it has no outstanding debt at interest rates that high, and has no "equity" component in its capital structure. A more appropriate (and cost-based) cost of capital would be based on the interest rates available to the PUD's on its long-term tax-exempt bonds – probably around 3.5%. Second, the FERC authorized rates of return have no relevance for Douglas PUD, since those rates are intended for private sector utilities and transmission developers that must raise equity capital willing to assume the risks of transmission line development and financial under-performance. Unless and until the PUD invests in another major transmission or distribution facility (at which time the PUD would adjust the Power Delivery Rate accordingly), essentially all of the revenue from new customers under the Power Delivery rate will be pure "profit" to the PUD. Hence the proposed rate presents no 'risk' to the PUD's net income or balance sheet, and there is no basis for assuming an artificially high cost of capital.

2. Inflation Factor – The PUD proposes to base its rates for 2021 on its actual costs from 2020, and then apply a 5.73% "inflation factor" to the rate for each future year. First, while there has been a recent run-up in commodity costs affecting materials purchased by the PUD, it is unlikely that will continue and highly unlikely that the PUD will actually experience an inflation cost as high as 5.73% over the next few years. Over a ten year period the effect of such an inflation factor would be to inappropriately increase the rate by approximately 75%. Second, as opposed to utilizing an inflation factor, it is more typical and appropriate for utilities to set a rate based on known underlying costs, and then adjust the rate periodically when those known underlying costs experience a material change.

3. Administrative Charge – The PUD is proposing a fixed monthly administrative charge of $3,215 per month. While it is fairly typical for there to be an "administrative" or "customer" charge in a power delivery rate, the PUD provides no basis or cost support for this number. (As an example, Grant PUD's Delivery rate Schedule 30 "Basic Charge" is $32 per month.)

4. Integration Charge – The PUD proposes a two-component integration charge. Customers should of course pay any integration costs that they cause the PUD to incur, and those costs should be fairly computed. However, no basis for the assumptions underlying these rate components or for the underlying $8.50 per KW-month cost is provided. While there is considerable ambiguity in the proper computation of integration services charges, that ambiguity should not be exploited to the disadvantage of customers. (As an example, Douglas PUD's proposed integration charges are more than double what Grant PUD's Schedule 30 would charge for an equivalent customer load.)

Power Delivery Rate Comparison (March 2021)

Rate Schedule Components

	Douglas PUD Proposed		Grant PUD Schedule 30		Portland General Electric Schedule 589		Pacific Power Schedule 748	
	Xmssn	Distbn	Xmssn	Distbn	Xmssn	Distbn	Xmssn	Distbn
Fixed Charge ($ per month)	3,200	3,200	32.00	32.00	1,890	3,970	1,490	1,830
Capacity Charge ($/KW-month)	7.11	7.77	1.90	5.02	2.57	3.83	4.71	5.96
Energy Charge ($/KWH)	$0.006	$0.006	--	--	--	--	$0.0059	$0.0055
Ancillary Charges	(0.03$Pk+Pk-Avg)*$8.50/KW-mo		$0.00046/KWH		--	--	--	--

Example Bill (Load = 10.5MW Peak, 10.0 MW Averge)

Fixed Charge ($ per month)	3,215.00	3,215.00	32.00	32.00	1,890.00	3,970.00	1,490.00	1,830.00
Capacity Charge ($/KW-month)	74,655.00	74,655.00	19,950.00	52,710.00	26,985.00	40,215.00	49,455.00	62,580.00
Energy Charge ($/KWH)	45,990.00	45,990.00	-	-	-	-	-	-
Ancillary Charges	6,927.00	6,927.00	3,358.00	3,358.00	-	-	-	-
TOTAL ($ per month)	**$ 130,787.00**	**$ 130,787.00**	**$ 23,340.00**	**$ 56,100.00**	**$ 28,875.00**	**$ 44,185.00**	**$ 50,945.00**	**$ 64,410.00**

	DOUGLAS PUD PROPOSED POWER DELIVERY RATE					
	Calendar Year - 2021			Calendar Year - 2022		
	9%	11%	13%	9%	11%	13%
Administrative Charge	$ 3,215.00	$ 3,215.00	$ 3,215.00	$ 3,215.00	$ 3,215.00	$ 3,215.00
Energy Charge	41,040.00	41,040.00	41,040.00	41,040.00	43,391.59	43,391.59
Delievery Charge	63,700.00	71,100.00	78,700.00	65,400.00	72,800.00	80,500.00
Integration Charge (a)	2,422.50	2,422.50	2,422.50	2,422.50	2,422.50	2,422.50
Integration Charge (b)	5,950.00	5,950.00	5,950.00	5,950.00	5,950.00	5,950.00
Market Power (Assumed $31/MW)	212,040.00	212,040.00	212,040.00	212,040.00	212,040.00	212,040.00
Estimated monthly cost	$ 328,367.50	$ 335,767.50	$ 343,367.50	$ 330,067.50	$ 339,819.09	$ 347,519.09
Estimated annual cost	$ 3,940,410.00	$ 4,029,210.00	$ 4,120,410.00	$ 3,960,810.00	$ 4,077,829.10	$ 4,170,229.10
All-in Cost per kWh	**$ 0.0450**	**$ 0.0460**	**$ 0.0470**	**$ 0.0452**	**$ 0.0466**	**$ 0.0476**

Comparison Not Accurate

Property Tax

- Most local governments are funded through property and excise taxes.
- Eventually, the Port could be receiving over $500K per year from data center development in Douglas County.
- The Port's job is to promote economic development. If the Port decides these developments are a priority maybe they should use this property tax money to subsidize (Not a PUD recommendation).

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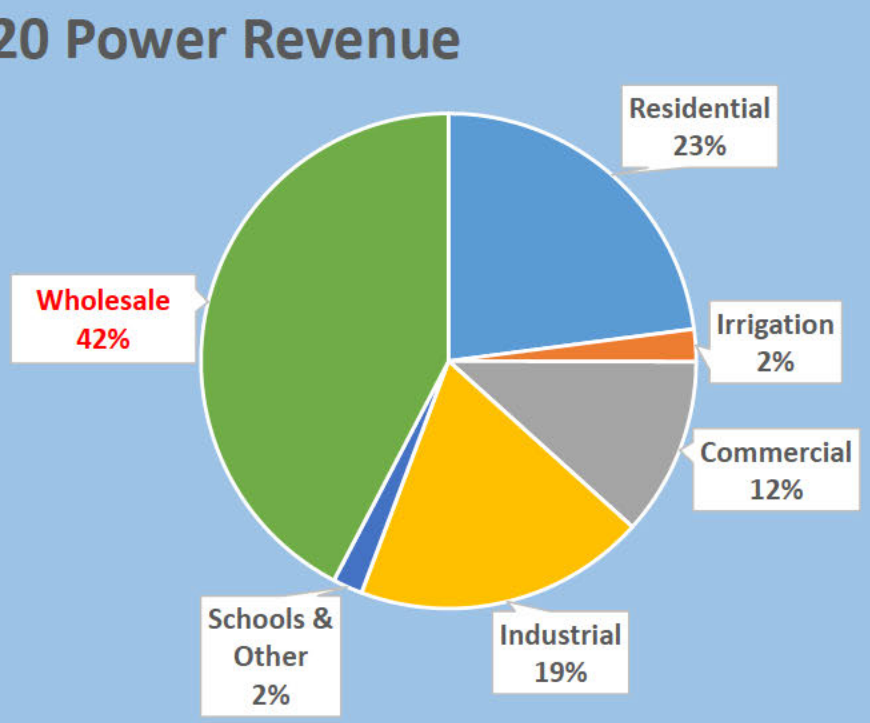

Choices

Power Delivery Rate - The District has worked out an unsubsidized power delivery rate that is very attractive and competitive in relation to other areas of Washington State and the United States.

- PUD could choose to subsidize the power delivery rate by using wholesale sales and increasing rates (Not Recommended)
- PUD could dramatically cut costs and not invest in future infrastructure to bring rates down, which reduces reliability (Not Recommended)

If the Port feels these rates are not attractive enough they should use their own tools (property tax) to subsidize and incubate businesses. (The PUD does not recommend or endorse this approach)

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