



June 6, 2023 | Burbank Water and Power Electric Rate Study Results

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# ELECTRIC RATE STUDY RESULTS



# Rate Study Agenda

- Rate Study Process
- Financial Forecast & Revenue Requirement
- Cost of Service Model
- Rate Strategy

# RATE STUDY PROCESS

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## Revenue Requirement

Identify cost to operate utility and determine rate revenue necessary to keep FEUS financially solvent.

## Cost of Service

Determination of cost to serve different customer classes, identifying fixed and variable cost components within each class.

## Rate Design

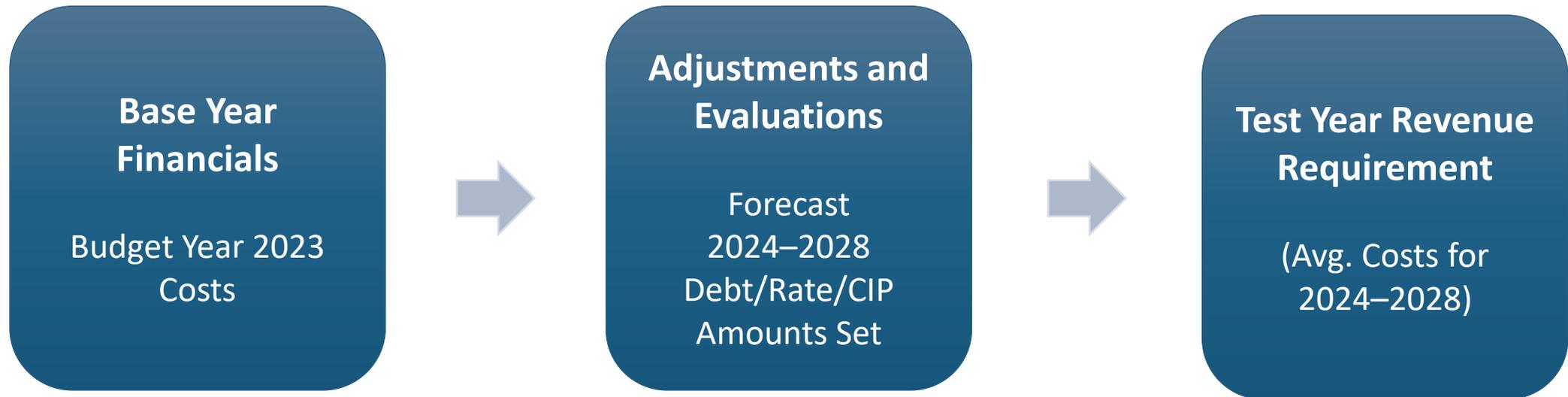
Use the COS results and policy to guide rate design. Rates must fully recover all costs.

# FINANCIAL FORECAST AND REVENUE REQUIREMENT

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## ***Test Year Revenue Requirement:***

Total costs to provide electric services to customers over the study period (2024–2028). Foundation of the COSA and based on forecast.



# KEY FINANCIAL METRICS DRIVING THE FINANCIAL FORECAST AND REVENUE REQUIREMENT

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- Debt Service Coverage Ratio (DSCR):
  - Measures utility's ability to pay for annual debt service expenses (Principal and Interest).
  - Typically requires 1.0X the total annual debt service.
  - Required by bond covenants at 1.20
- Days Cash on Hand (Cash Reserves):
  - Measures utility's amount of working capital or days of operating expenses (BWP target of 160 days)
  - Acts as cash flow management for utility.
  - At times can offset short-term rate increases or reduce the need to frequently change specific cost recovery rates (e.g., ECAC).

***Cash reserves and DSCR will directly impact BWP's credit rating.***

- Declining or lower levels of DSCR and cash reserves likely lead to lower credit ratings and increased costs of debt.
- Higher levels of reserves and DSCR will increase credit ratings and reduce costs of debt.

# SYSTEM RATE CHANGES TO ACHIEVE FINANCIAL POLICY

Component	2024	2025	2026	2027	2028
ECAC Rate Change	8.9%	8.0%	8.0%	8.0%	6.3%
Base Rate Change	8.0%	8.0%	8.0%	8.0%	8.0%
Total Rate Change	8.5%	8.0%	8.0%	8.0%	7.0%

*Rate Plan utilizes reserves to reduce rate impacts in early years, then replenish reserves in later years.*

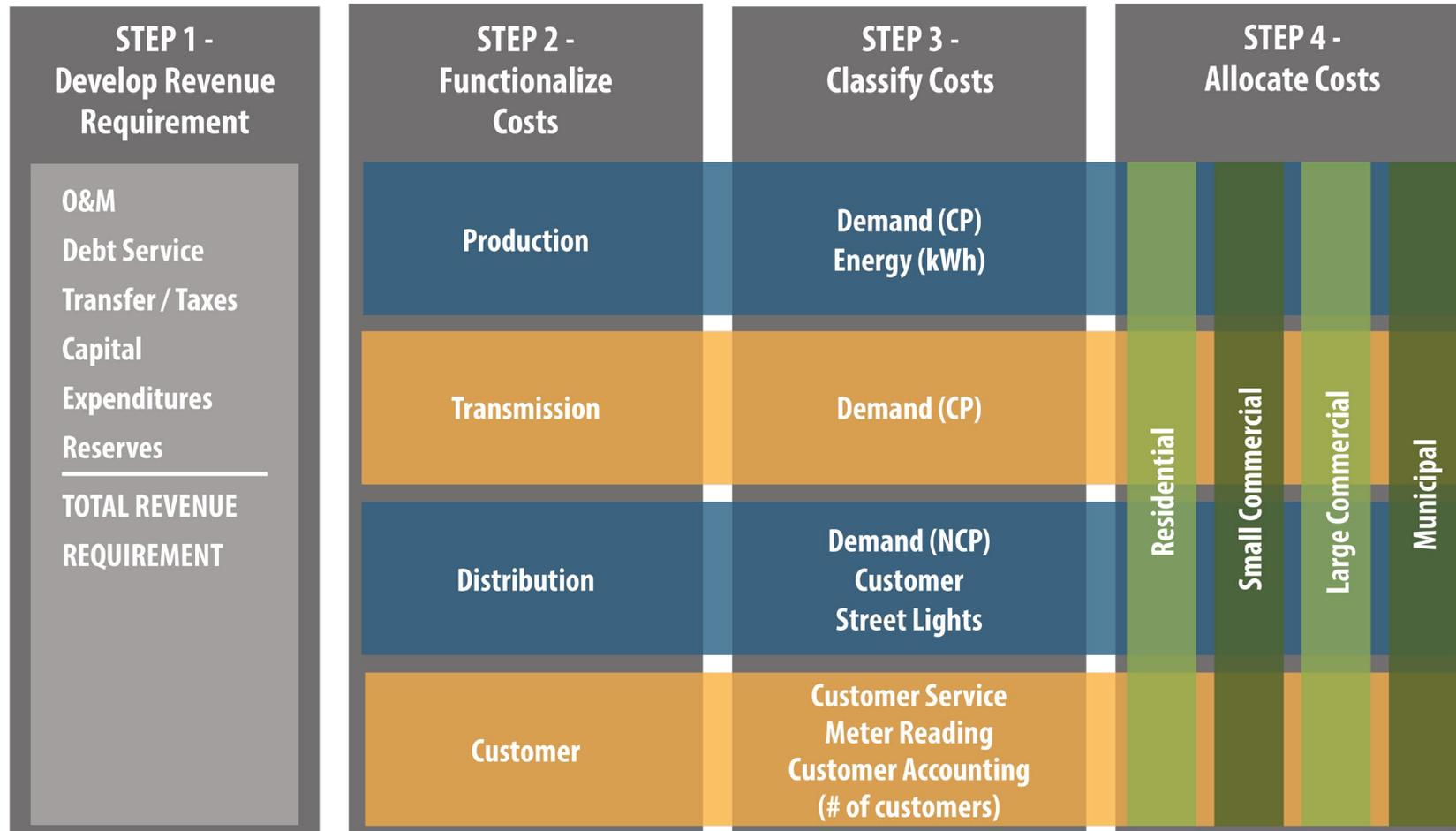
# REVENUE REQUIREMENT

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Component	Revenue Requirement (millions)	Percent of Revenue Requirement
Power Supply	\$210.1	85%
Non-Power Supply O&M	60.5	24%
Debt Service	12.6	5%
Cash Funded Capital	35.3	14%
Less Other Income	(70.6)	(28%)
<b>Test Year Revenue Requirement</b>	<b>\$247.8</b>	<b>100%</b>

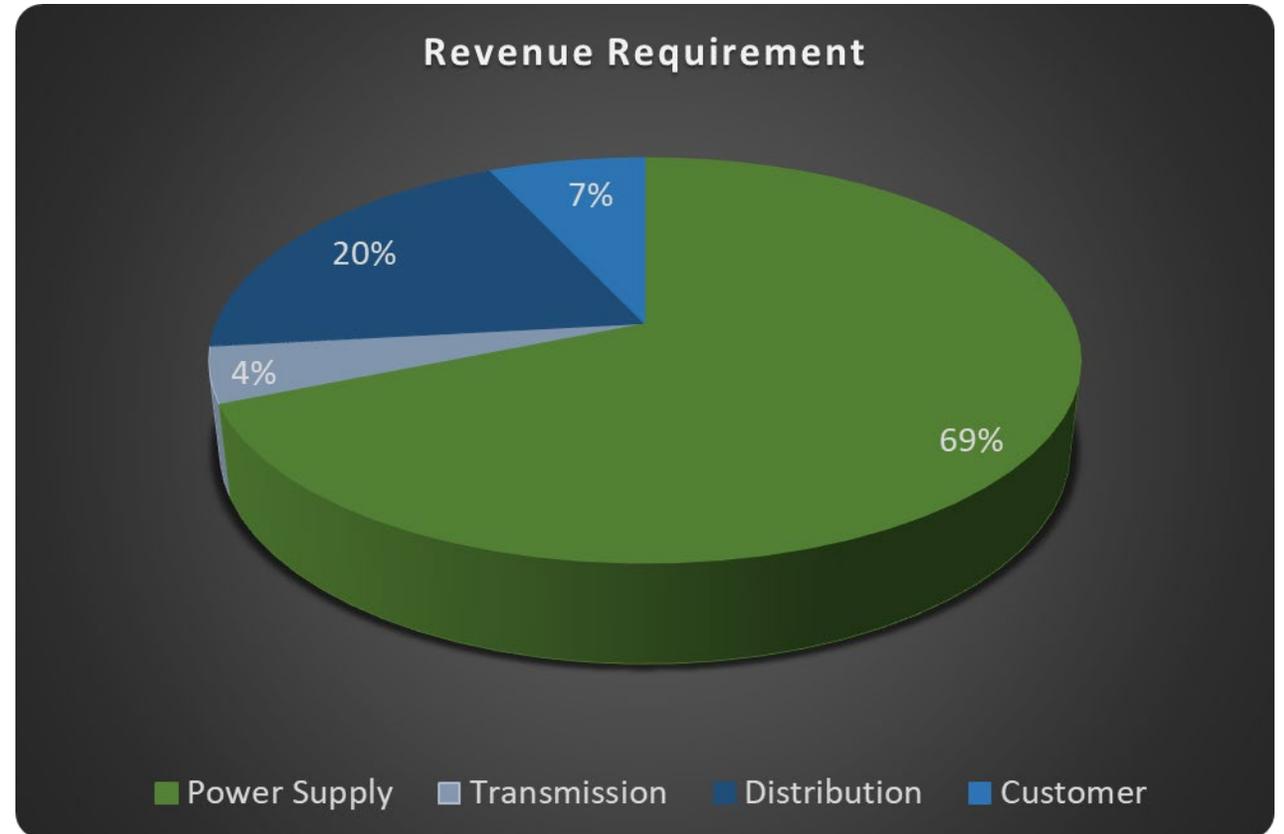
Based on the Financial Forecast, a 5-year average Test Year was developed to calculate the COS by each customer class.

# COST OF SERVICE STEPS



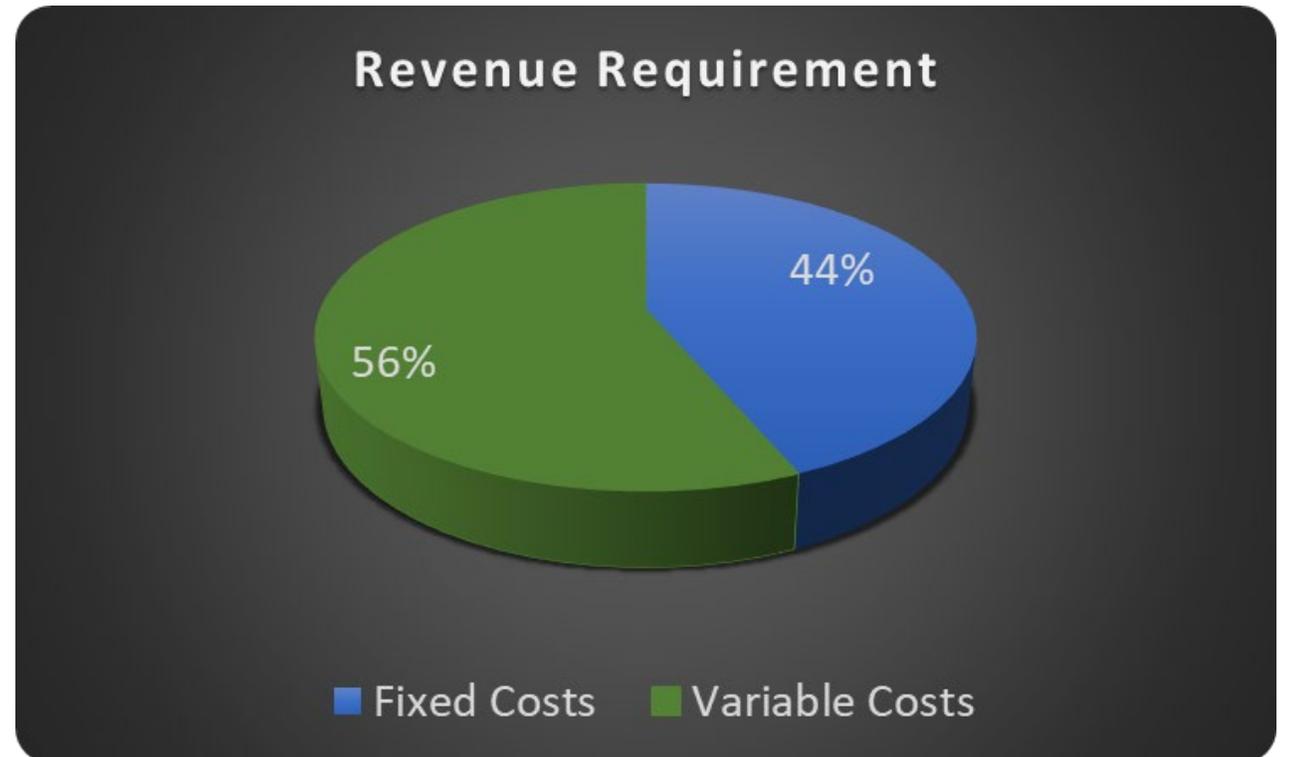
# COST OF SERVICE RESULTS

Function	Revenue Requirement (millions)	Percent of Revenue Requirement
Power Supply	\$170.4	69%
Transmission	11.0	4%
Distribution	49.4	20%
Customer	17.1	7%
<b>Revenue Requirement</b>	<b>\$247.8</b>	<b>100%</b>

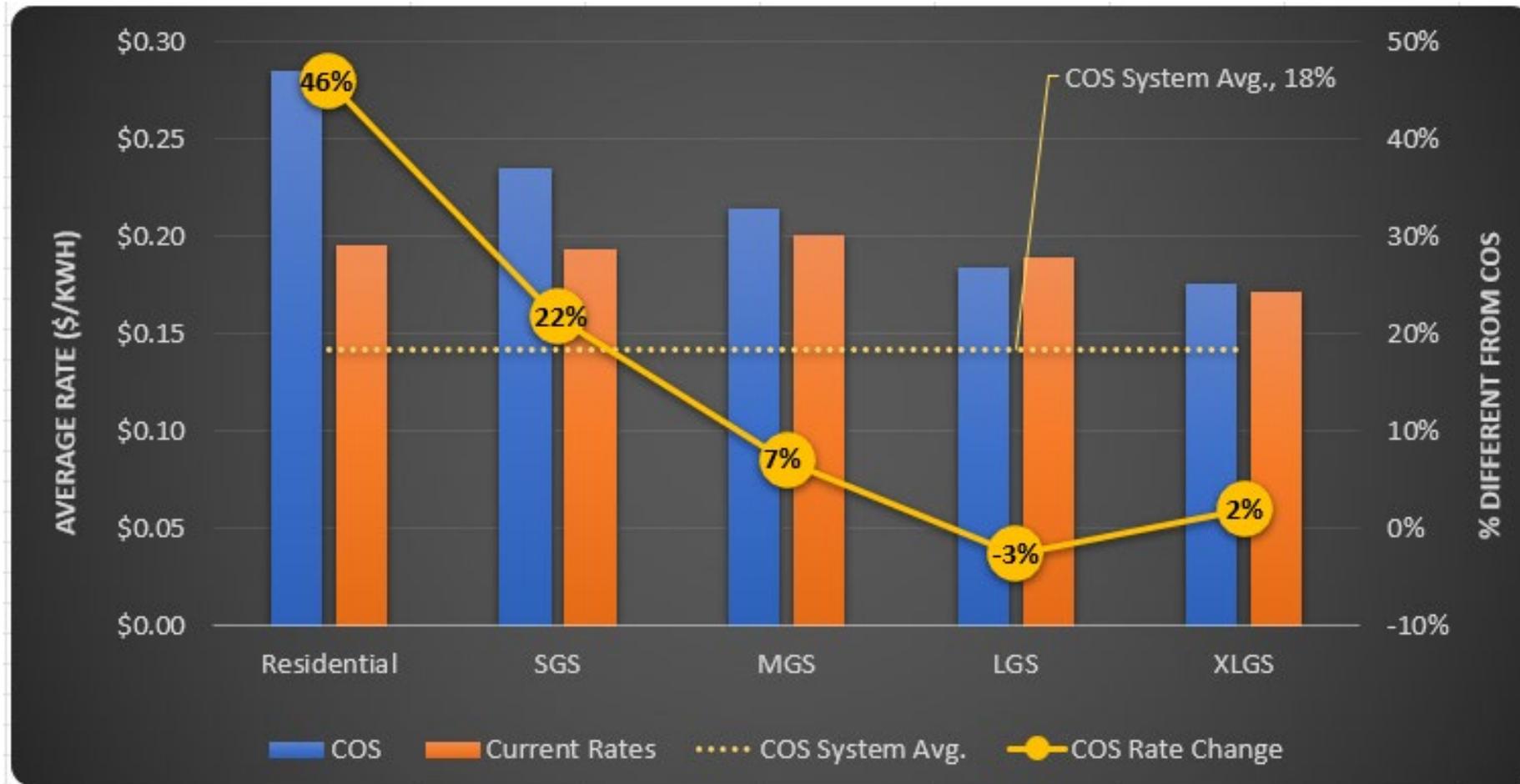


# COST OF SERVICE RESULTS

Function	Revenue Requirement (millions)	Percent of Revenue Requirement
Customer	\$19.9	8%
Demand	88.1	36%
Energy	139.8	56%
<b>Revenue Requirement</b>	<b>\$247.8</b>	<b>100%</b>



# COST OF SERVICE RESULTS BY CUSTOMER CLASS



# COST OF SERVICE TO RATE DESIGN

## Cost of Service

Revenue Requirement

Functionalize

Classify

Allocate

Guide for cost-based rates

## Rate Making

Policy Decisions

Incentivize behavior

Rates do not always match  
COS

Industry practice is to move  
towards or align with COS  
(Prop. 26 implications)

## Rates

Collect sufficient revenue

Support community goals

Support utility goals

Price signal to customers

- Convey information
- Change behavior

# RATE STRATEGY

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- Cost of Service shows dramatic changes from existing rates, primarily due to using COS methodology that aligns with industry practice
- Use gradualism to mitigate rate shock and large changes, thus provides time for customers to change behavior and prepare for changes
- Gradually achieve COS:
  - Rate Cap: no class receives more than 1.5x the system average
  - Rate floor: no class receives a rate decrease
  - Fully recover costs each year
  - Moves towards COS results over 3-5 years

# RATE STRATEGY IMPLEMENTATION BY CLASS

Customer Class	COS Total % Rate Change	2024	2025
Residential	44.99%	12.75%	12.00%
Small General Service	23.05%	12.75%	12.00%
Medium General Service	9.73%	10.27%	5.36%
Large General Service	-0.01%	3.24%	5.36%
Extra Large General Service	4.65%	4.03%	5.36%
Total	18.40%	8.50%	8.00%

*Rate Plan utilizes reserves to reduce rate impacts in early years, then replenish reserves in later years.*



# QUESTIONS?

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