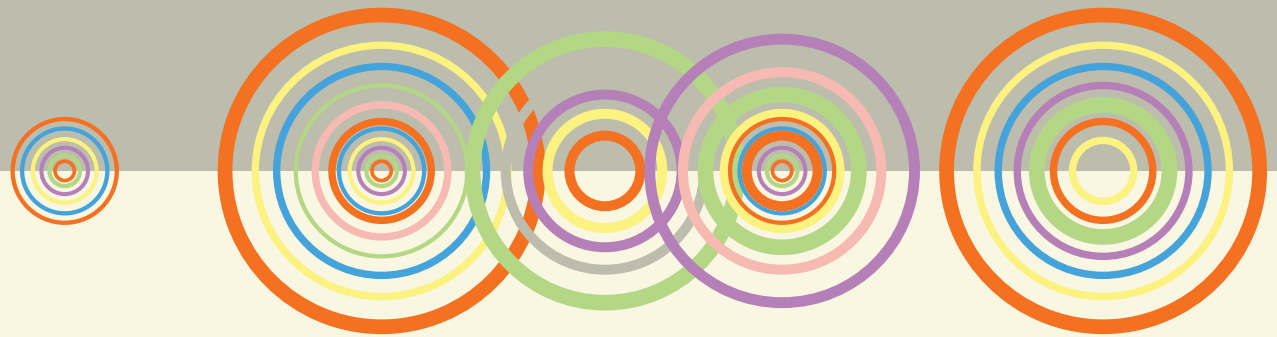
# RATE DESIGN UPDATE: DECLINING BLOCKS REMOVAL

05.13.25



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# AGENDA

- Proposed adjustments to the Service Regulations and Schedules
  - **Declining Block Rate Elimination**
  - **Energy Management Credit Elimination**
- Timeline
- Customer Outreach

# DECLINING BLOCK RATE ELIMINATION

# HISTORY OF DECLINING BLOCKS

- In the 1950s and 60s, declining block rates (DBR's) were a dominant feature of residential tariffs in the US.
- They were intended to incentivize electrification of homes and businesses by offering lower per-kWh prices for higher usage.
- This pricing strategy was driven by the belief that electricity costs would continue to fall as technology improved and economies of scale were realized.
- While DBR's are still used in some regions, they are less prevalent than in the past.
- DBR's can inadvertently lead to increased energy consumption, which is undesirable in a time of rising energy costs and conservation efforts.
- DBR's disproportionately benefit high-consumption customers, potentially making the overall system less equitable.

# OPPD DECLINING BLOCKS

- Eliminate the existing declining block rates and consolidate into a single rate for each season:
  - **Rates 110, 115, 230, 231 have multiple WINTER blocks**
  - **Rate 231 also has multiple SUMMER blocks**

| | Residential | | Commercial | |
|---|---|---|---|---|
| | 110 | 115 | 230 | 231 |
| **2025 Approved Rates** | | | | |
| Service Charge | $30.00 | $30.00 | $33.00 | $19.86 |
| Billable Demand | | | | $7.89 |
| Summer Energy - Block 1 | 10.950 | 9.610 | 10.620 | 7.380 |
| Summer Energy - Block 2 | | | $10.62 | 5.810 |
| Winter Energy - Block 1 | 9.550 | 9.500 | 8.400 | 5.920 |
| Winter Energy - Block 2 | 8.850 | 8.800 | 8.400 | 4.560 |
| Winter Energy - Block 3 | 8.740 | 7.110 | 7.190 | |
| FPPA | 0.457 | 0.457 | 0.457 | 0.457 |
| **Total Revenue** | **$460,666,684** | **$78,153,409** | **$83,970,977** | **$291,652,771** |
| **2025 Single Block Rates** | | | | |
| Service Charge | $30.00 | $30.00 | $33.00 | $19.86 |
| Billable Demand | | | | $7.89 |
| Summer Energy | 10.950 | 9.610 | 10.620 | 6.997 |
| Winter Energy | 8.921 | 8.085 | 8.075 | 5.669 |
| FPPA | 0.457 | 0.457 | 0.457 | 0.457 |
| **Total Revenue** | **$460,662,306** | **$78,152,354** | **$83,971,054** | **$291,657,357** |

*Note that this rate change does not impact the total revenue we collect from customers.* ***This is not a rate increase for OPPD.*** *However, there are benefiters and non-benefiters in each class.*

# RATIONAL FOR REMOVAL

- Historically, market energy prices were most volatile during the summer months.
- As the mix of generation in SPP has evolved, we now experience large swings in energy prices year-round.
  - **Over the last 3 years, 55% of the 100 highest priced hours occurred in the non-summer months.**
- Upcoming changes to the Planning Reserve Margin in the Southwest Power Pool are removing much of the distinction between the summer and winter months for capacity planning.
- Declining block rates send the message that higher usage by customers can be served at a lower cost to OPPD, a dynamic that no longer holds true.
- In April 2024, The Brattle Group reviewed OPPD's existing rate design for all customer classes relative to rate design best principles and recommended updates to bring OPPD's rate in line with industry standard.
  - **Block rates served their purpose during a different energy era and should be eliminated in favor of flat or preferably time-based rates.**

# CHANGES SINCE LAST BOARD REVIEW (2021)

- The decision to implement AMI and pursue associated best in class rate structures necessitates establishing a "clean" rate structure baseline.
- SPP's recent decision to increase the Planning Reserve Margin in winter months from 16% to 36% in the winter of 2026/27 is an additional point supporting block elimination. The winter margin is expected to increase again to 38% later this decade.
- Based on the results of our Cost of Service Studies that accompany each rate action, over the last 3 general rate increases the gap between the blocks has narrowed considerably.
  - **Since we no longer have excess capacity, there are no economies of scale for high users.**
  - **Difference between the first and last winter block (in cents per kWh):**

| | 110 | 115 | 230 | 231 |
|---|---|---|---|---|
| 2021 Rates | 3.360 | 4.330 | 2.650 | 2.350 |
| 2025 Rates | 0.810 | 2.390 | 1.210 | 1.360 |

  - **As a result, the significant bill impacts in the 2021 analysis are no longer a factor, and the rate concept of "gradualism" has been achieved by the recent rate actions**

# BILL IMPACT OVERVIEW

- Highest usage customers experience bill increases, low and average usage customers see bill decreases
- Residential
  - **66% of customers see a bill decrease**
  - **89% of customers see a bill change that is within 1% of their current bill**
  - **95% of customers see a bill change that is within 3% of their current bill**
  - **Only 1,500 customers (0.4% of total residential customer base) see a bill increase over 5%**
- Commercial
  - **89% of customers see a bill decrease**
  - **32% of customers see a bill change that is within 1% of their current bill**
  - **Only 400 customers (0.8% of total commercial customer base) see a bill increase over 5%**

# BILL IMPACT ANALYSIS – RESIDENTIAL

66.6% of Customers are Benefiters

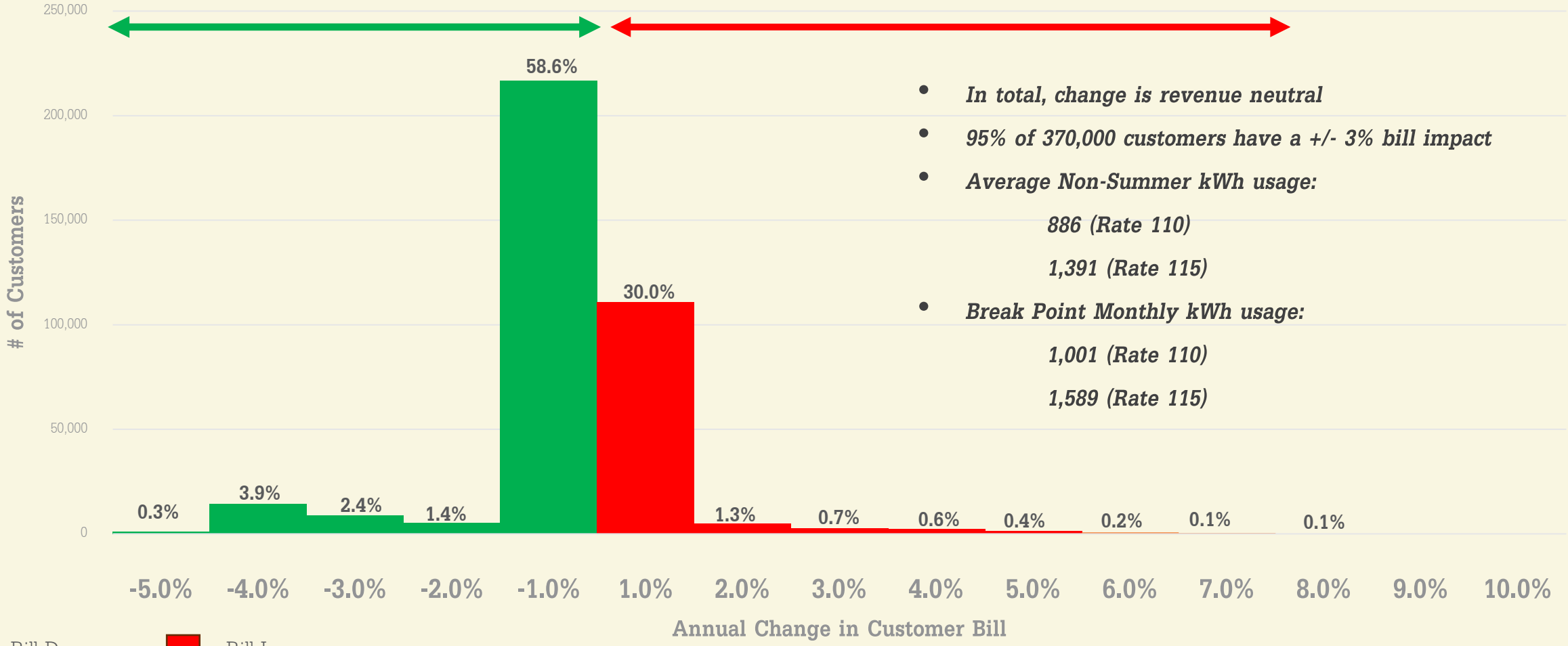
Median Annual Bill Impact: -$2.72 (-0.2%)

Max Impact: -4.8%

33.4% of Customers are Non-Benefiters

Median Annual Bill Impact: $4.19 (0.3%)

Max Impact: 9.6%




- ***In total, change is revenue neutral***
- ***95% of 370,000 customers have a +/- 3% bill impact***
- ***Average Non-Summer kWh usage:***
  - ***886 (Rate 110)***
  - ***1,391 (Rate 115)***
- ***Break Point Monthly kWh usage:***
  - ***1,001 (Rate 110)***
  - ***1,589 (Rate 115)***

# BILL IMPACT ANALYSIS – COMMERCIAL

88.3% of Customers are Benefiters

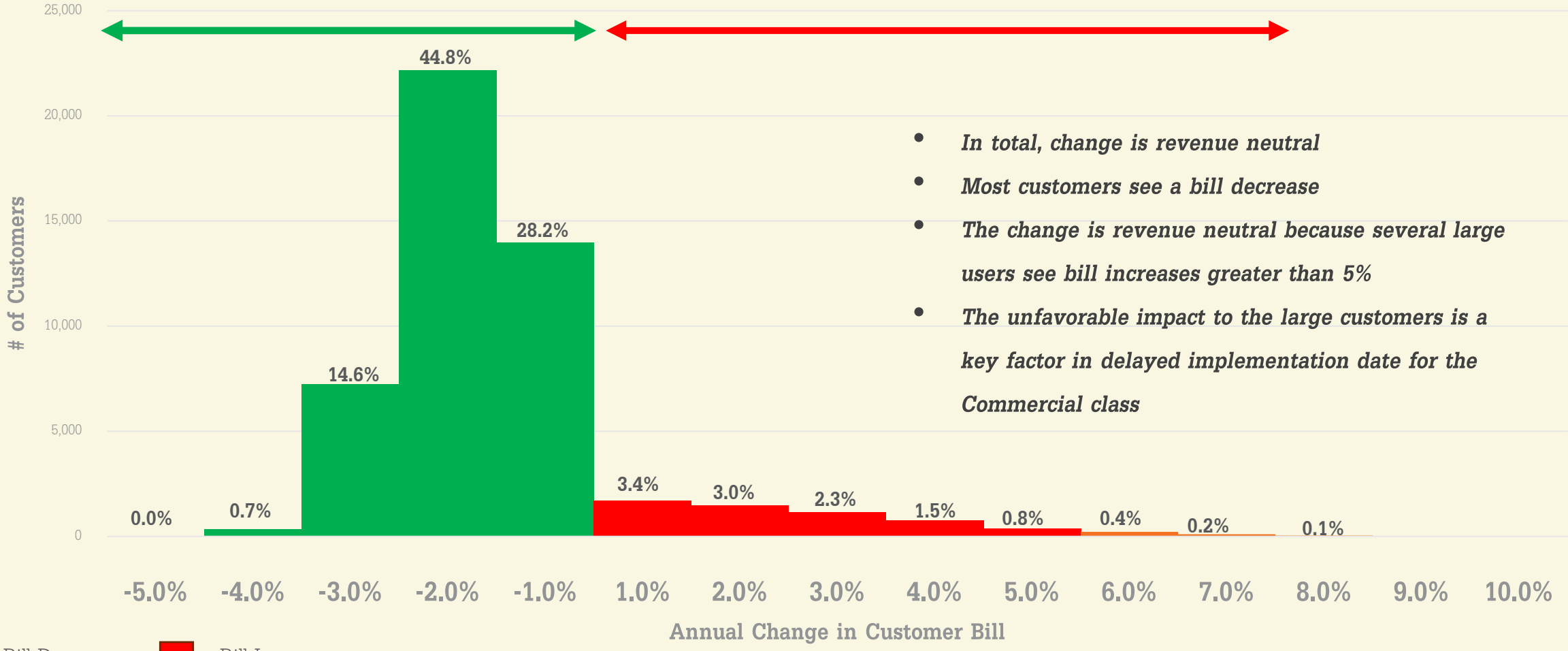
Median Annual Bill Impact: -$95.44 (-1.3%)

Max Impact: -3.2%

11.7% of Customers are Non-Benefiters

Median Annual Bill Impact: $684.11 (2.1%)

Max Impact: 11.4%




- ***In total, change is revenue neutral***
- ***Most customers see a bill decrease***
- ***The change is revenue neutral because several large users see bill increases greater than 5%***
- ***The unfavorable impact to the large customers is a key factor in delayed implementation date for the Commercial class***

# HIGH IMPACT (>5% INCREASE) PROFILES

- Residential ➔ 1,500 customers (0.4% of total residential customer base)
  - **High Usage: non-summer months usage 6.0x the average residential customer (5,300 kWh)**
  - **Heat Pump: all are Rate 115 customers**
  - **Larger Residences: average square footage for this group is 3,800 (vs 2,100 for all residential )**
  - **Mostly rural – 50% fall in Director Hudson's and 30% in Director Core's territory.**
  - **Higher Incomes: 67% have household incomes more than $100,000 (vs 35% for all residential)**
    - Only 40 customers are identified in the vulnerable group (more discussion on this segment in the ensuing slides)
- Commercial ➔ 400 customers (0.8% of total commercial customer base)
  - **No common themes in terms of type of business**
  - **Annual Bills Range from $2,000 to $2,500,000**
  - **Median Bill size is $11,188**

# VULNERABLE CUSTOMER IMPACTS

- Vulnerable customer definition:
  - **Less than 200% of Federal Poverty Level based on household size OR**
  - **LIHEAP eligible**
  - **Approximately 70,000 customers**
- Relative to the entire Residential class, the vulnerable customer group experiences slightly more favorable / less harmful bill impacts with DBR elimination.
  - **Like the entire class, most (91%) experience a bill change that is +/- 1% of current bill**
  - **Less than 300 customers (0.4%) experience a bill increase over 3%**
  - **1,600 customers (4.3%) see a bill decrease greater than 3%**

# BILL IMPACT ANALYSIS – VULNERABLE

70.1% of Customers are Benefiters

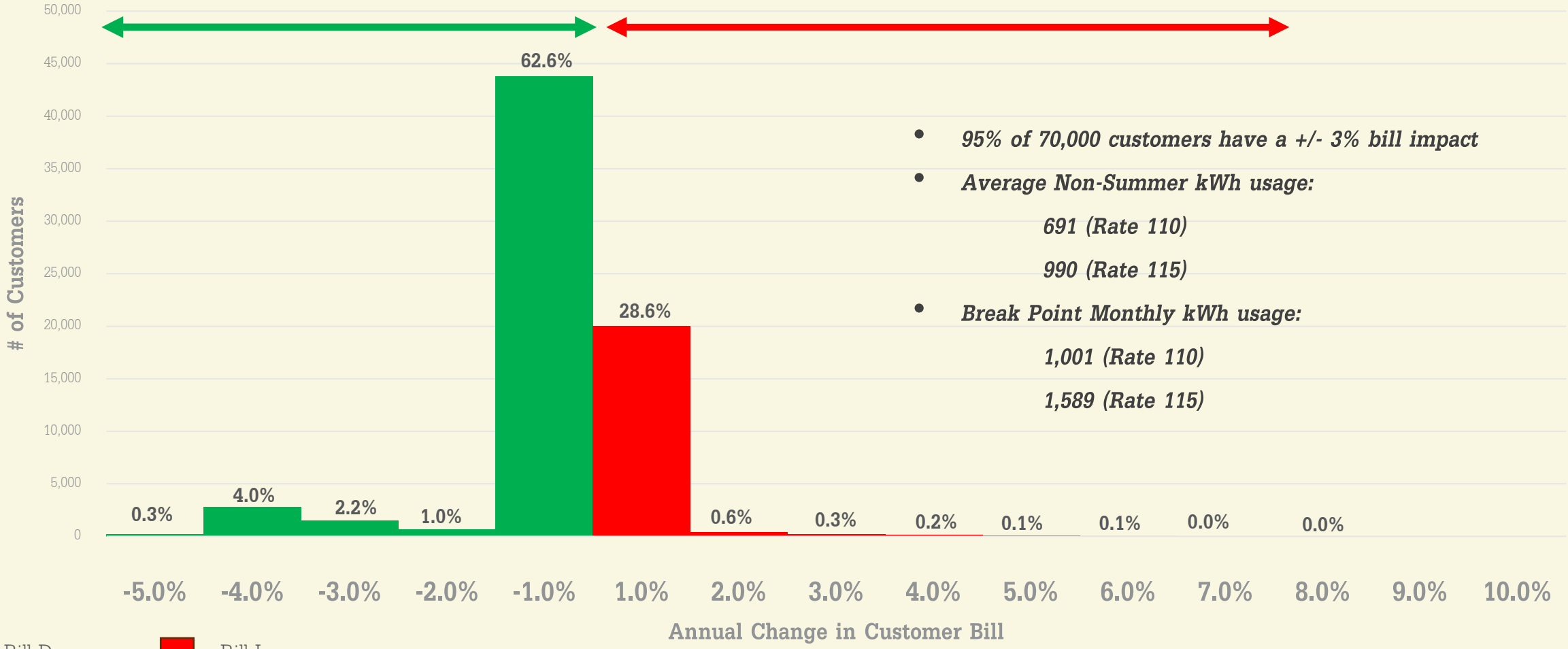
Median Annual Bill Impact: -$2.75 (-0.3%)

Max Impact: -4.5%

29.9% of Customers are Non-Benefiters

Median Annual Bill Impact: $3.67 (0.3%)

Max Impact: 8.5%




- ***95% of 70,000 customers have a +/- 3% bill impact***
- ***Average Non-Summer kWh usage:***
  - ***691 (Rate 110)***
  - ***990 (Rate 115)***
- ***Break Point Monthly kWh usage:***
  - ***1,001 (Rate 110)***
  - ***1,589 (Rate 115)***

# CUSTOMER ASSISTANCE SOLUTIONS

- Energy Assistance Program (EAP)
- Low Income Home Energy Assistance Program (LIHEAP)
- Customer Assistance Program Pilot
- Pay Plan
- Gift of Energy
- Payment Installment Program
- Level Payment Plan

**Addresses Bill Payment Options**

- Energy Efficiency Assistance Program (EEAP) → **Addresses Energy Usage**

In addition to these current programs, several program enhancements and new products will be evaluated over the next several years as part of Low Moderate Income Customer Engagement in the Resource Adequacy initiative.

# ENERGY MANAGEMENT CREDIT ELIMINATION

# ENERGY MANAGEMENT CREDIT

- Brattle also recommends eliminating the Energy Management Credit (EMC)
  - **This change will also necessitate lowering the minimum bill amount**
- Rates 110 and 115 currently have an EMC: *"A credit of $2.07 per month will be applied to summer monthly kWh consumption of more than 100 kWh and less than 401 kWh."*
  - **Credit has been in place since at least 1991**
  - **Raised from $2.00 to $2.07 effective January 2004; unchanged since then**
  - **No information available on how the $2.07 credit amount was calculated, no cost of service justification**
- EMC credits are approximately $310,000 annually (0.07% of $477MM residential revenue)
  - **70,000 customers / 19% of total received at least 1 credit**

# EMC CUSTOMER PROFILES

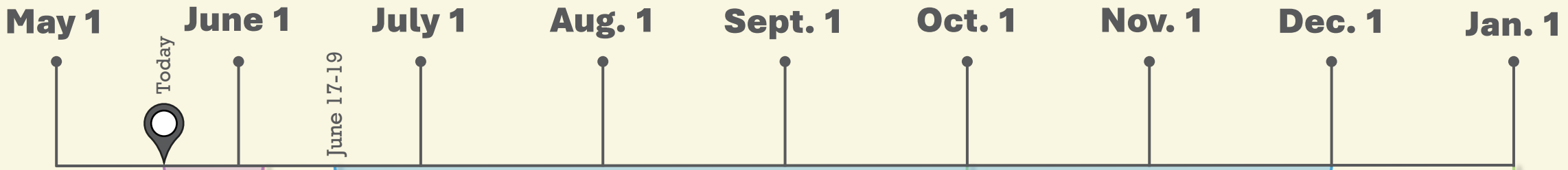
- EMC recipients primarily reside in apartments
  - **1 Credit: 70% apartments**
  - **2 Credits: 80% apartments**
  - **3 Credits: 85% apartments**
  - **4 Credits: 90% apartments**
  - **Any Credit: 80% apartments**
- **But** only 40% of apartments receive at least 1 credit
- Cabins represent 1% of the credits
- Vulnerable customer are slightly more impacted
  - **28% of credits are issued to vulnerable customer population (vulnerable group represents 19% of all customers in our data set)**
  - **Reminder – net impact of DBR and EMC elimination is still less than 1% for these customers**

# TIMELINE & CUSTOMER OUTREACH

# RATE ACTION TIMING

- May 13 – Board All Committee Presentation
- May 13 – Open Comment period starts
- June 15 – Open comment period ends
- June 17 – All Committee Meeting report out on open comment period
- June 19 – Board of Directors Meeting
  - **Board Vote**
- October 1
  - **Residential declining block elimination takes place**
- January 1
  - **Commercial declining block elimination takes place**

# DECLINING BLOCK REMOVAL CUSTOMER OUTREACH




**For all proposed rate actions:**

- Social + Press release*
- OPPD.com
- OPPD Community Connect

**For declining blocks proposed action:**

- Initial outreach to business customers with larger potential impact

**For all proposed rate actions:** Social posts: Reminder about 30-day comment period

**For all proposed rate actions:** Press release* + Board vote on rate actions

**For declining blocks proposed rate action:** Upon board vote in favor, specific communications to

- Small/Medium/Large business customers
- Residential customers with larger potential impact
- Includes email, direct mail, phone calls

Upon board vote in favor, **residential** rates effective for declining block rates + EMCs

Upon board vote in favor, **commercial** rates are in effect for declining block rates

**COLOR KEY**

- 155 Days Out
- 120 Days Out
- 90 Days Out
- Res. Rates in effect