



CHILlicothe MUNICIPAL UTILITIES

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Rate Redesign FAQs

Frequently Asked Questions About CMU's New Rate Design

Q: What is different about the rates?

A: In early 2017, the Board of Public Works approved the launch a five-step, multi-year program to bring greater balance and fairness to its rate design. Over that period, ratepayers' rates will be adjusted so all of the utility's fixed costs – everything it takes to run the business and take care of its electrical system – will be recovered through the customer/minimum charge. The kilowatt-hour rate, or energy charge, will based on the cost of energy and will change only when CMU's energy costs change.

Q: How are these costs currently recovered?

A: Now and until the redesign is fully implemented, recovering the costs of caring for CMU's business operations and the system that delivers electricity to ratepayers are recovered through both the customer charge and the kilowatt-hour charge. Once the redesign timeline is concluded, more of the energy and transmission service costs will be recovered through the energy charges and a larger portion of the system's infrastructure-related costs will be recovered through the customer charge.

Q: Why does the design need to change?

A: Most other electric utilities bundle all of their costs into one price – the kilowatt-hour charge. The system was born in simpler times and was a convenient way to do business for both utilities and their customers. However, the approach also created a strong perception among consumers that everything the utility provided them was defined solely by how much electricity they bought, a perception that persists today. When consumers' use went up, the bill went up. When their use declined, so did the size of their bill. The trouble is, only some utility costs rise and fall the same way. The redesign will stabilize recovery of so-called "fixed costs" which do not fluctuate from month to month like energy costs can.

Q: Why now?

A: Some ratepayers' electricity use patterns are changing due to several trends. High efficiency-related consumer behaviors and product selections are becoming increasingly more commonplace, which also decrease actual electricity use. And going forward expectations are that most accounts will continue the trend of electricity use that is well below historical averages, however, still depending on same electric systems that must be maintained to provide the service.

With traditional rate increases serving as our main tool for managing the revenue stream, this would perpetuate an unbalanced rate design. This disproportionately shifts the costs of supporting the electrical system from those who use little to those with more consumption monthly. We believe it is a more fair and equitable approach to have every ratepayer share equally in the cost of being connected to the CMU system, and to have their individual energy choices be affected specifically by the current cost of energy.



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Q: What are included in fixed costs?

A: These costs include everything that is in place to deliver electricity 24-hours a day, seven-days a week, 365-days a year. Among them: the poles, wires, transformers and substations that carry the electricity; trucks and heavy equipment; the engineers, linemen and other technicians who build and fix the system; the computer systems that support almost everything we do and the cyber security systems they require; the people who use those systems to serve ratepayers; and all materials needed to get work done, from the fuel that runs vehicles to the tools used by workers. Fixed costs account for more than half of all electric-related costs.

Q: Are all other electric utilities making this change?

A: Industry-wide utilities are re-evaluating their rate design strategies to better align with customer choices and trends, both short and longer-term. While CMU is increasing its facilities charge, there is a corresponding decrease to the energy charge. This rate redesign is more favorable to ratepayers in most cases and is meant to be a revenue neutral approach.

Q: How will this affect the size of my monthly bill?

A: On average it will not have any effect due to offsetting decreases in corresponding energy charges. For each step along the timeline when the customer charge is increased, the kilowatt-hour rate will be proportionately decreased. As a result, CMU's revenues will not change. This is called a revenue-neutral approach. However, individual ratepayer bills will be affected differently depending on how much electricity they use.

Q: How will bills be affected at different user levels?

A: Some ratepayers will see slightly lower overall costs, others will see slightly higher, and many will see no change. For residential accounts, ratepayers using the CMU average of approximately 900 kilowatt-hours (kWh) per month will see little or no change, less than two dollars either way. Ratepayers using significantly less electricity than the average, will see an average monthly increase of \$1.00. Ratepayers using significantly more electricity than average, will see an average decrease of \$2.00.

Q: How will the redesign affect ratepayers who have invested in energy efficiency measures and factored rising energy costs into their decision to do so?

A: As we offset increases in the customer charge with decreases in the kilowatt-hour charge, the long-range outlook is for energy costs to continue to increase, but at a lower rate than they have in recent history. This is because we anticipate continued wholesale energy and transmission rate increases. However, our main objective is that all ratepayers pay a fair share for the benefits of being connected to CMU's electric system regardless of their individual energy choices.



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Q: What is the schedule for the changes?

A: Following the first step to take effect October 1, 2017, these adjustments will be made annually, likely in April, starting in 2018. With each step, both the customer charge and kWh energy charge will be adjusted. Changes to the energy charge will reflect both the subtraction of some fixed cost recovery and corresponding adjustments to CMU's energy charge plus any increases to wholesale electricity and transmission rates.

Q: What was the process for reaching the approach taken to redesigning rates?

A: Management conducted a thorough Cost of Service Analysis of multiple historical timeframes for CMU. This study analyzed all costs of building, operating and maintaining the system, and serving ratepayers. The analysis showed that the current customer charge was well below the level needed to ensure consistent recovery of the fixed costs. It also showed the need to bring more equality to how different rate schedules – residential, commercial, and industrial – were structured to recover costs. Management brought the issue to the Board of Public Works and was authorized to develop options for redesigning rates to achieve more fairness and balance among the different ratepayer categories. A recommendation for specific rate adjustments at each step of the timeline will be given prior Board approval ensuring for the gradual implementation of the originally approved rate redesign.