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February 21, 2020

Via E-mail

Mr. John McClenny, CPO
Special Projects Director
The City of Stillwater, Oklahoma

Dear Mr. McClenny:

I am pleased to present the executive summary of the 2019-2020 Cost of Service and Rate Design Study report for you to share with the Trustees of the Stillwater Utilities Authority (SUA) for the March 2, 2020, meeting.

Avant performed the cost of service and rate design study for SUA's electric, water, and wastewater utilities.

I look forward to presenting the study results to the SUA trustees on March 2.

Thank you very much for the opportunity to perform this work for the City of Stillwater and the Stillwater Utilities Authority. If you have any questions, please feel free to contact me at (612) 252-6531.

Very truly yours,

Avant Energy, Inc.

A handwritten signature in blue ink, appearing to read 'David W. Niles', with a horizontal line extending to the right.

David W. Niles
Vice President

EXECUTIVE SUMMARY

Avant Performed Cost of Service and Rate Design Services

Avant Energy, Inc. (Avant) performed cost of service and rate design consulting services for Stillwater Utilities Authority (SUA). This report outlines the analysis, results, and recommendations.

Evaluated SUA Electric, Water, and Wastewater Utilities

The project scope included an evaluation of SUA's electric, water, and wastewater utility activities. For each utility, the test year revenue requirement was developed, cost of service was determined, and rate design was performed. Financial projections were prepared for the test year and the next four fiscal years (through FY 2024).

Four Study Objectives Defined

Four rate study objectives were defined by SUA management in consultation with Avant. They were:

- Limit rate increases to the extent possible
 - Draw down cash balances as an alternative to rate increases where possible
 - Set rates that allow each utility to be financially stable
 - Set rates that are competitive with SUA's peers
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No Electric Base Rate Increase Required

The study results indicate that no increase in SUA's base electric rates are required. Revenues are projected to be sufficient to cover SUA's projected operating costs (including purchased power), capital expenditures, and transfer to the City's general fund. However, a reduction in the electric utility's transfer to the general fund is required to offset inflationary cost increases and not increase base rates.

SUA also has a power charge adjustment (PCA) that recovers electric costs above a specified threshold. The PCA is projected to be at \$0 for FY 2020 and 2021 and increase to approximately \$720,000 by FY 2024 as purchased power costs from GRDA are projected to increase.

Move Electric Rate Components Closer to Cost of Service

Although no electric base rate increase is projected to be required, it is recommended that SUA move its electric rate components closer to cost of service. In general, this means increasing customer charges and demand charges, with some offsetting decreases to per-kWh energy charges. These changes better align SUA's rates with the manner in which costs are incurred and are projected to be revenue neutral.

Current Water and Wastewater Rates Do Not Cover SUA's Costs

This study demonstrates that SUA's current water and wastewater rates are not sufficient to cover projected operating costs, capital expenditures, and current and projected debt service. The water and wastewater revenue requirements do **not** include any transfers to the City of Stillwater's general fund.

Three Water and Wastewater Rate Alternatives Evaluated

To address the revenue shortfall described above, three water and wastewater rate alternatives were evaluated. They are:

- 2% Rate Increase
- Larger Rate Increase to Bring Funds to a Projected Annual Breakeven in FY 2024
- 3% Rate Increase with Reduced Capital Expenditure for Each Fund

The benefits and drawbacks of each of these alternatives are explored in the report.

Move Water Rate Components Closer to Cost of Service

Similar to electric rates, it is recommended that SUA move its water rate components closer to cost of service. In general, this means placing a larger share of the rate increase onto customers that connect to SUA's system with a larger meter, as these rates are currently more below cost of service than customers connecting with smaller meters.

Phase In Rate Changes Over Multi-Year Period

This report recommends phasing in all rate changes (including revenue-neutral electric rate changes) over a multi-year period to limit customer impact.