# 2025 Rate Plan

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# 2025 Rate Plan

- PEC operates as a cooperative.  As a result, PEC's sole source of funding over time is member rates. Accordingly, all rates must be designed to pass through costs and prevent subsidies between members.

- Every year we prepare a rate plan to advise members and the PEC board about upcoming rate actions.  We are asking for approval of this rate plan.  We are not asking for action on any of the individual rate items presented as part of the plan, but will bring related resolutions for each item in the near future.

- Two broad categories of rates:

    1. **System Cost Based Rates**—These are rates designed to recover the cost to operate our system which are not subject to observable market rates but are calculated based on the results of our triennial cost of service study.  We updated our cost of service study this year in accordance with our 3-year cycle.

    2. **Market Based Rates**—these are categories of rates where observable changes in market rates are used to calibrate PEC member rates

# Rate Adjustments for Consideration

- **System Cost Based Rates**—recommended adjustments based on the most recent cost of service study
  - **Residential**—Increase **Service Availability Charge** and reduce **Delivery Charge** to better match rate structure to fixed/variable operating cost structure.
  - **Small Power**—Adjust **Service Availability** and **Delivery charges** between small power single phase and three-phase rate classes to address cross subsidization
  - **Fees** – Increase due to rising cost to provide service
    - Open Records Fee.
    - Subpoena Response Service Fee

- **Market Based Rates**
  - **Base Power Cost** – Adjust pass-through due to changes in the cost of power within the ERCOT market
  - **Transmission Cost of Service** – Adjust pass-through due to PUC rate charges
  - **Sustainable Power Credit** – Increase due to changes in the cost of power within the ERCOT market

# Components of a PEC Bill

## Current Activity

| | | |
|---|---|---|
| Service Availability Charge | | $22.50 |
| Delivery Charge | 1,250 kWh @ $0.028405 | $35.51 |
| Base Power Cost | 1,250 kWh @ $0.058500 | $73.13 |
| TCOS Pass-Through Charge | 1,250 kWh @ $0.019554 | $24.44 |
| eBilling Credit | | -$1.00 |
| eBilling Draft | | -$1.50 |
| **Current Charges** | | **$153.07** |

**Service Availability Charge**
Fixed charge mechanism recovers services and distribution cost.

**Delivery Charge**
Variable charge mechanism recovers services and distribution cost.

**Power Costs**
Recovers cost to procure power and associated costs

**TCOS Pass Through**
Recovers access charges for the ERCOT transmission system

System Cost Based Rates

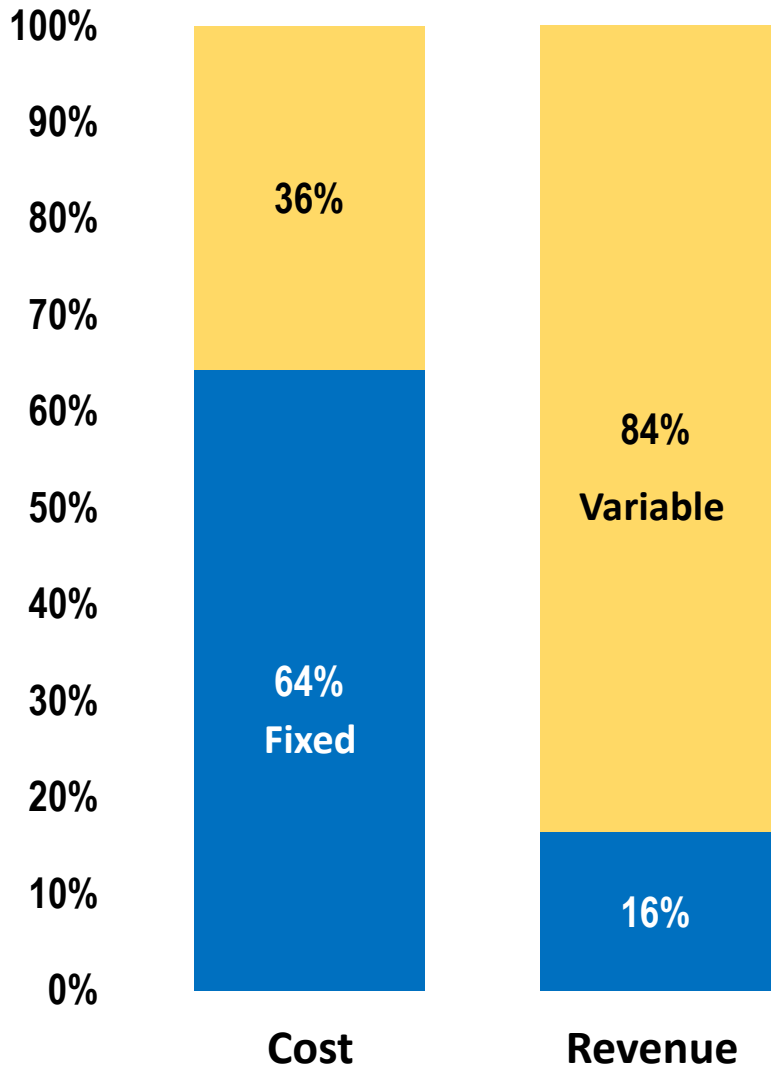
Market Based Rates

# System Cost Based Rates

# Residential Delivery and Service Availability Charges

## Issue: Adjustments needed to better align between fixed cost, variable cost and the associated revenues

- Power volumes change based on weather and member usage patterns, resulting in fluctuations in variable revenues
- The fixed Service Availability Charge (SAC) is unchanged regardless of volumes delivered
- Unchanging costs like debt service, facilities, taxes or similar fixed charges may not be fully recovered or may be over recovered if tied to variable volumes
- To ensure proper matching of expenses to cost recoveries fixed costs should be recovered through fixed charges like the SAC and variable costs should be recovered through volumetric based charges like the Delivery Charge
- This ensures:
  - **Members are not over or undercharged to recover cost**
  - **PEC financial stability and credit rating**



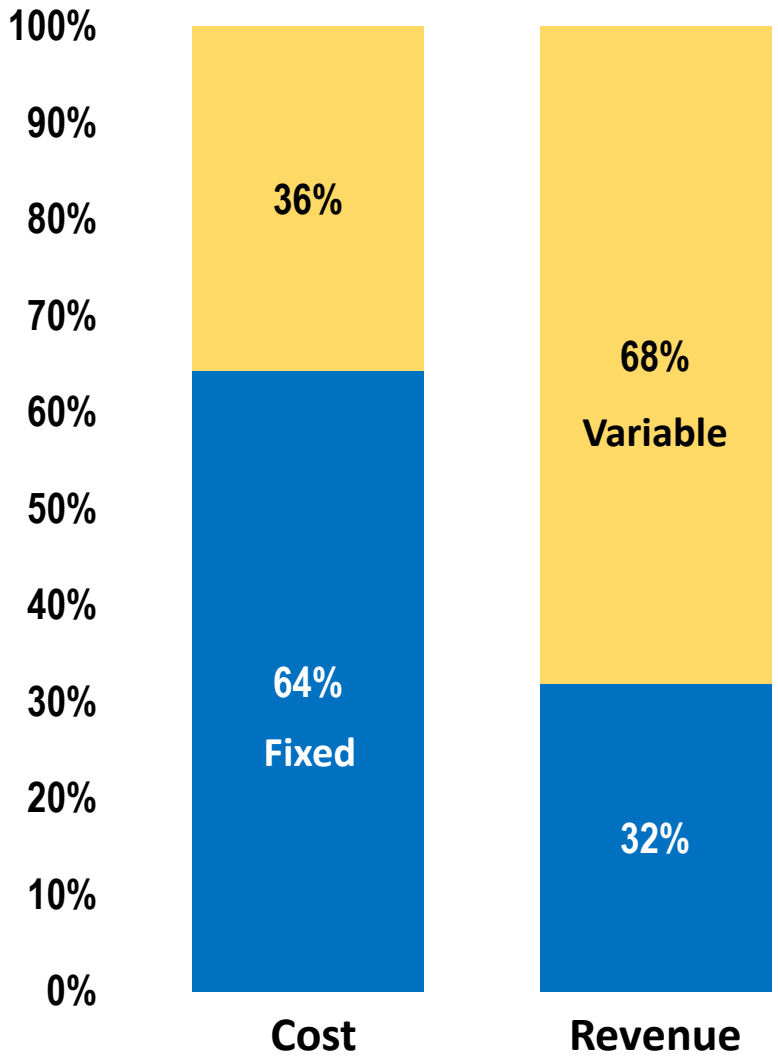
# Recommendation: Reduce Variable Revenues and Increase Fixed Revenues

- Will reduce subsidies as small end-users are added to PEC system through build out of multifamily housing
- Increase Service Availability Charge which is a source of fixed revenue
- Reduce Delivery Charge which is a source of variable revenue
- **Typical residential bill impact of $2.68/month**

| Charges | Current | Proposed | Difference | Monthly Bill Impact** |
|---|---|---|---|---|
| Service Availability Charge | $20.00* | $30.00* | $10.00 | $10.00 |
| Delivery Charge | $0.028405 | $0.022546 | -$0.00586 | -$7.32 |

*$20.00 after eBilling and eDraft credits *$30.00 for the basic billing package

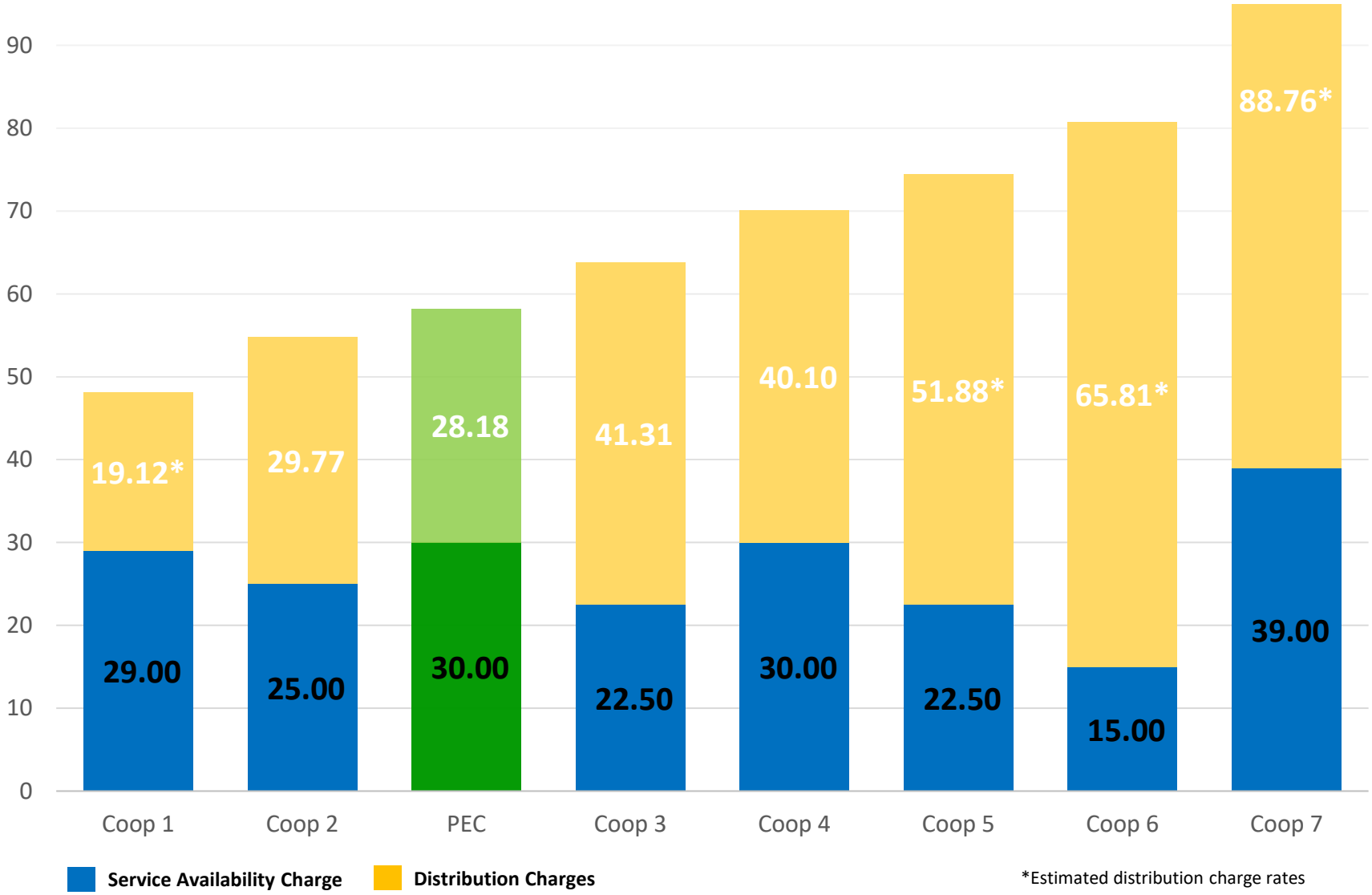
**Calculated based on monthly usage of 1,250 kWh



# Residential Delivery and Service Availability Charges

## Benchmarking

- Fixed cost of distribution infrastructure is recovered using combo of fixed/variable charges
  - Service Availability Charge ($/month)
  - Delivery Charge ($/kW)
- Both charges lower than surrounding co-ops
- Adjustments would bring fixed charge profile in line with comparable utilities
- Service Availability Charge increase offset by Delivery Charge reduction

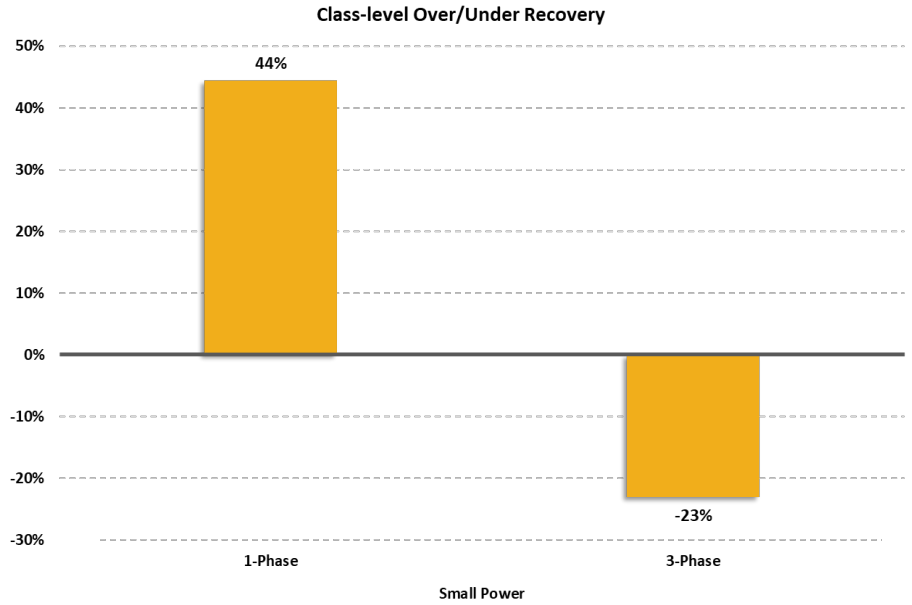



*Estimated distribution charge rates
**rate reflects discounted SAC after eBilling and eDraft credits

# Small Power: Single Phase and Three Phase

## Issue: Single-Phase Subsidizing 3-phase

- Approximately 24,000 small power members are Single-Phase Service; 9,000 are Three-Phase Service
- Differences between usage patterns is causing a significant divergence between the revenue requirement for single-phase and three-phase.




## Recommendation: Small Power Members

- Increase the SAC and delivery charge for three-phase to $57.50 and $0.026506
- Decrease the delivery charge for single-phase to $0.0079849
- No change for single phase SAC.

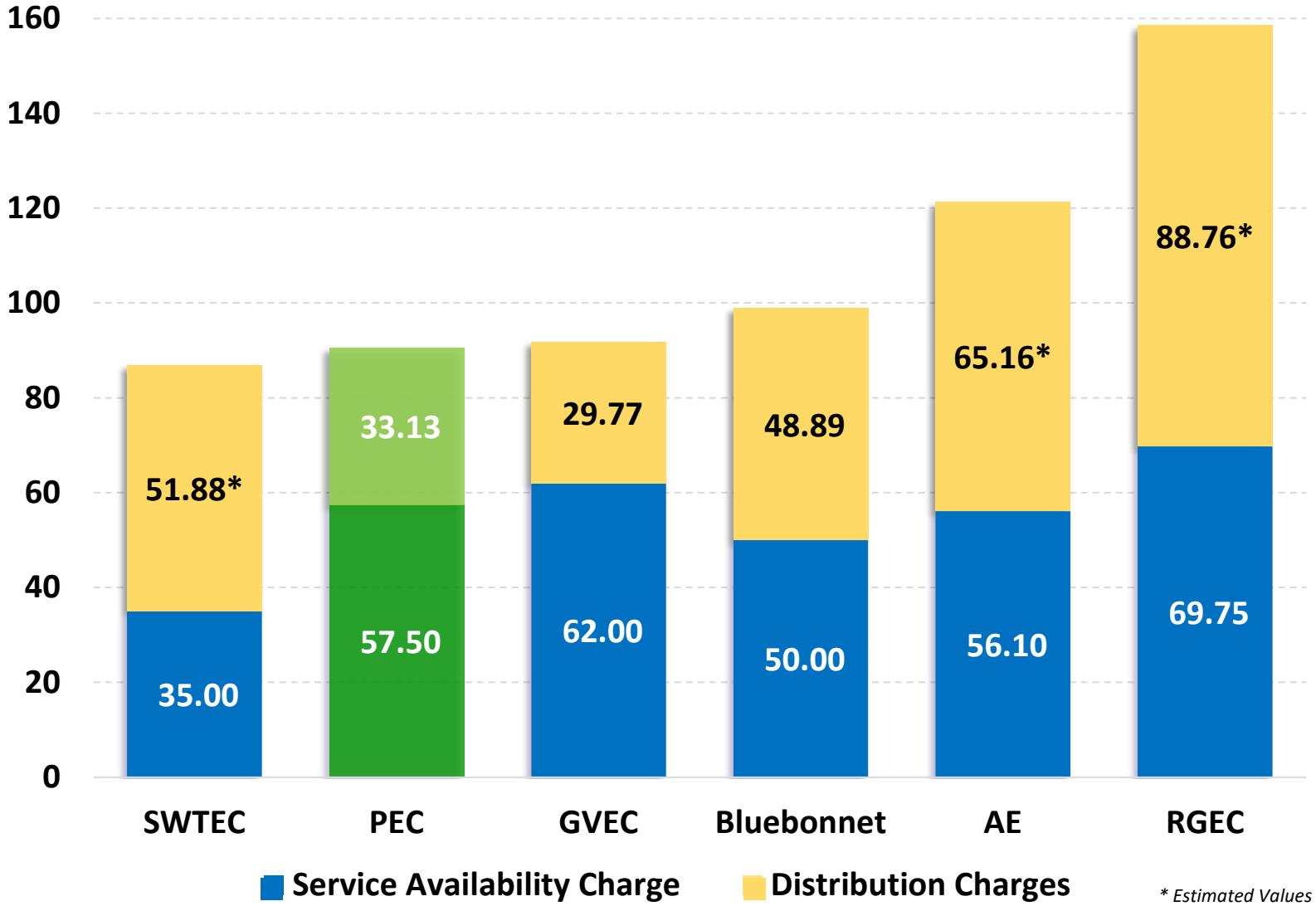
- Addresses inequities without materially affecting revenues.

| Recommended Service Availability Charge | | Recommended Delivery Charge | |
|---|---|---|---|
| 1-Phase | 3-Phase | 1-Phase | 3-Phase |
| $37.50 | $57.50 | $0.007849 | $0.026506 |

# Small Power: Single-Phase vs. Three-Phase Service

## Benchmarking

- Six utilities identified for Small Power: Three-Phase Service
- Excluding high and low, observed a Service Availability Charge ranging from $50 - $62
- Recommend adjusting to a Service Availability Charge close to midpoint




** Estimated Values*

# Discretionary Service Charges (Fees)

## Two Fee Change Recommendations

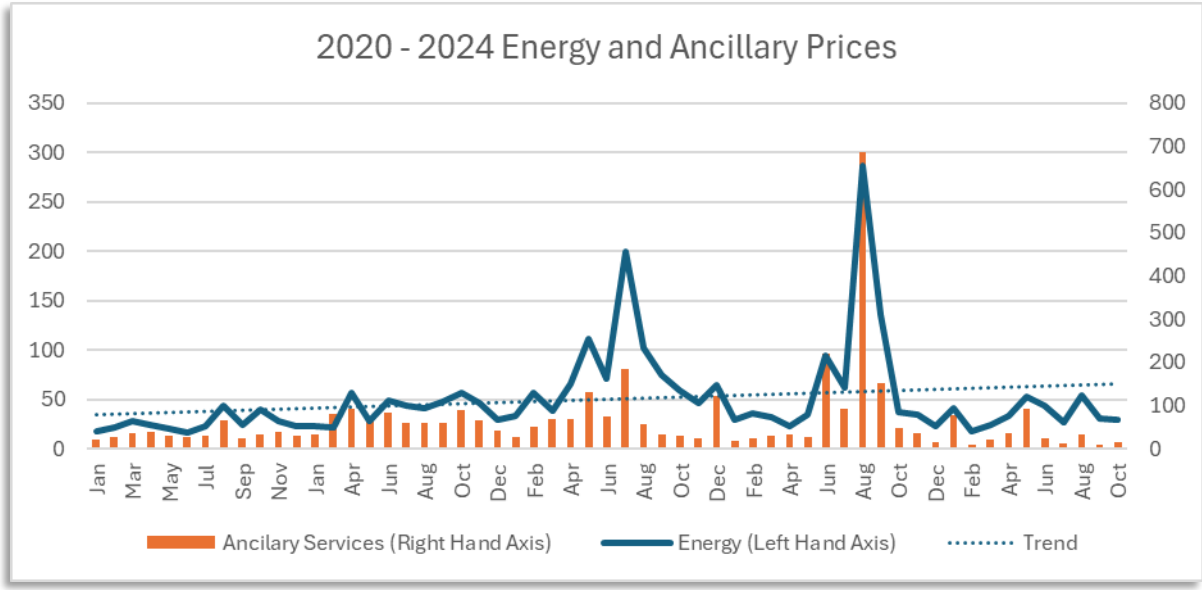
| Fees | Current Amount | Proposed Amount | Section |
|---|---|---|---|
| Open Records Fee – Staff research time | $ 40.00 / hour | $ 70.00 / hour | 300.4 |
| Subpoena Response Service Fee | $ 40.00 / hour | $ 70.00 / hour | 300.4.1 |

- Review of fees was included in study
- Primarily includes updating resource costs that support fee amount
- If process changes that would impact fee amount, fees may be reviewed outside of regular Cost-of-Service Study schedule

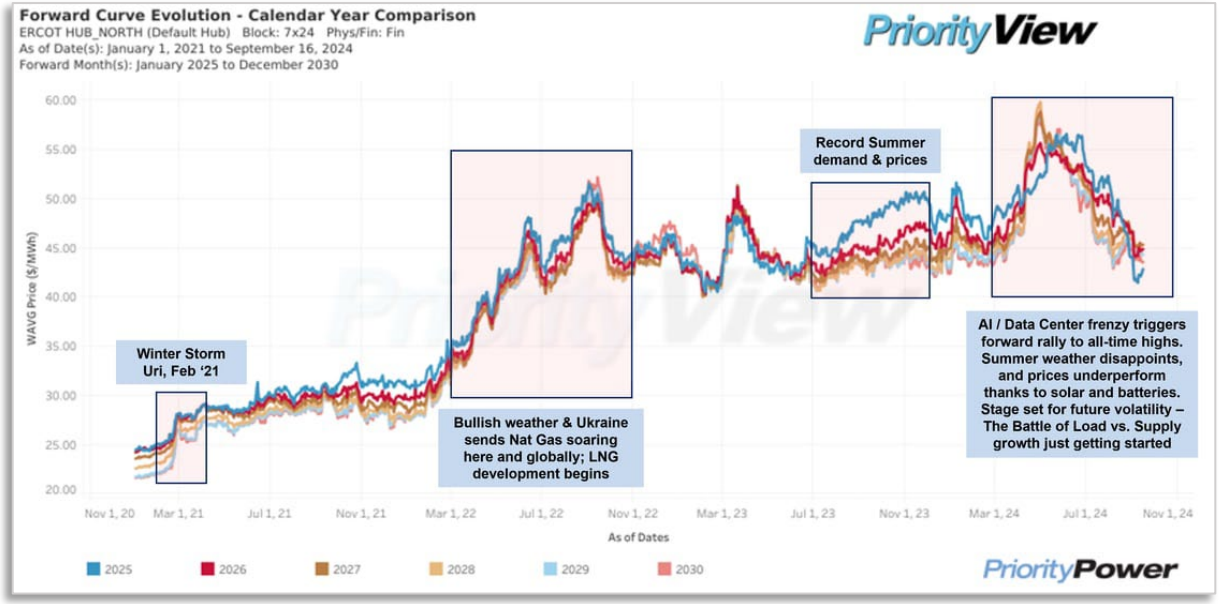
# Market Based Rates

# Base Power Cost Increase Due to Rising Power Prices

Historical




Future




- Wholesale power costs and ancillary prices in ERCOT have been increasing since 2020
- Regulatory decisions implemented additional ancillary service charges in 2023 adding $12B in costs to ERCOT market and ratepayers
- This increased the outlook for future prices, placing upward pressure on PEC's base power cost
- Wholesale power costs are a direct pass-through to the membership, PEC does not collect a margin

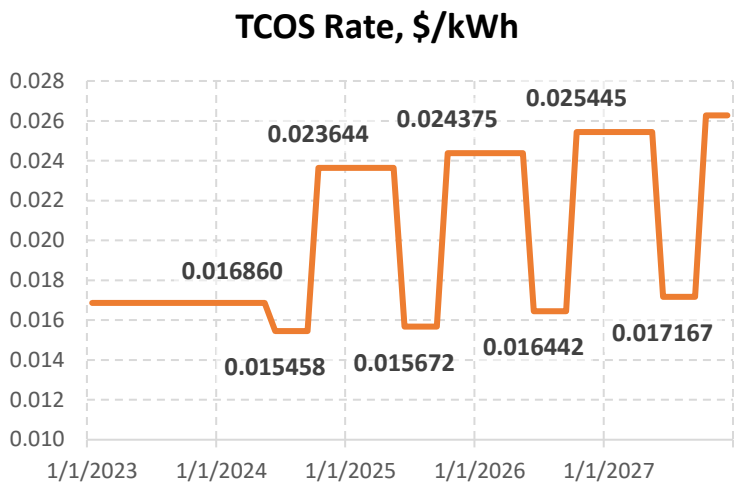
# Base Power Cost (Flat and Time-of-Use)

- Under PEC's tariff the base power cost is determined by formula
- The base power cost is a function of budgeted power costs for the next year plus or minus adjustments to recover or return variances between prior year budgeted and collected power costs
- The cost is converted to an hourly charge by dividing by the budgeted volumes

(budged power costs ± previous under or over recoveries) / budgeted volumes

($455 M + $12 M) / 7,547 GWh = $0.0619/kWh

# Transmission Cost of Service (TCOS) Increase Due to PUC Rate Changes




***Current and Proposed Rates***

| | Current Rate | Proposed Rate (10/1/24) | % Change |
|---|---|---|---|
| TCOS Rate | 0.015458 | 0.023644 | 53% |

| Typical Bill | Summer 2024 | Winter 24/25 |
|---|---|---|
| TCOS Portion ($) | $23.20 | $23.62 |
| TCOS Portion (%) | 13.4% | 18.1% |

***Year-Over-Year (YOY) Forecasts***

| | Current (6/1/24) | Forecast (6/1/25) | YOY Pct. Change |
|---|---|---|---|
| June YOY | 0.015458 | .015672 | 1.4% |

| | Proposed (10/1/24) | Forecast (10/1/25) | YOY Pct. Change |
|---|---|---|---|
| October YOY | 0.023644 | 0.024375 | 3.1% |

- PEC and all market participants in ERCOT are charged a fixed amount each month for transmission services
- The Transmission Cost of Service charge recovers the fixed charge on a per kWh basis so the charge is higher in low usage periods and lower in high usage periods. This gives the charge its saw-tooth shape as it adjusts each June and October
- Because transmission charges are increasing in ERCOT, the charge trend has an upward slope
- TCOS are a direct pass-through to the membership, PEC does not collect a margin

# Sustainable Power Credit Adjustment

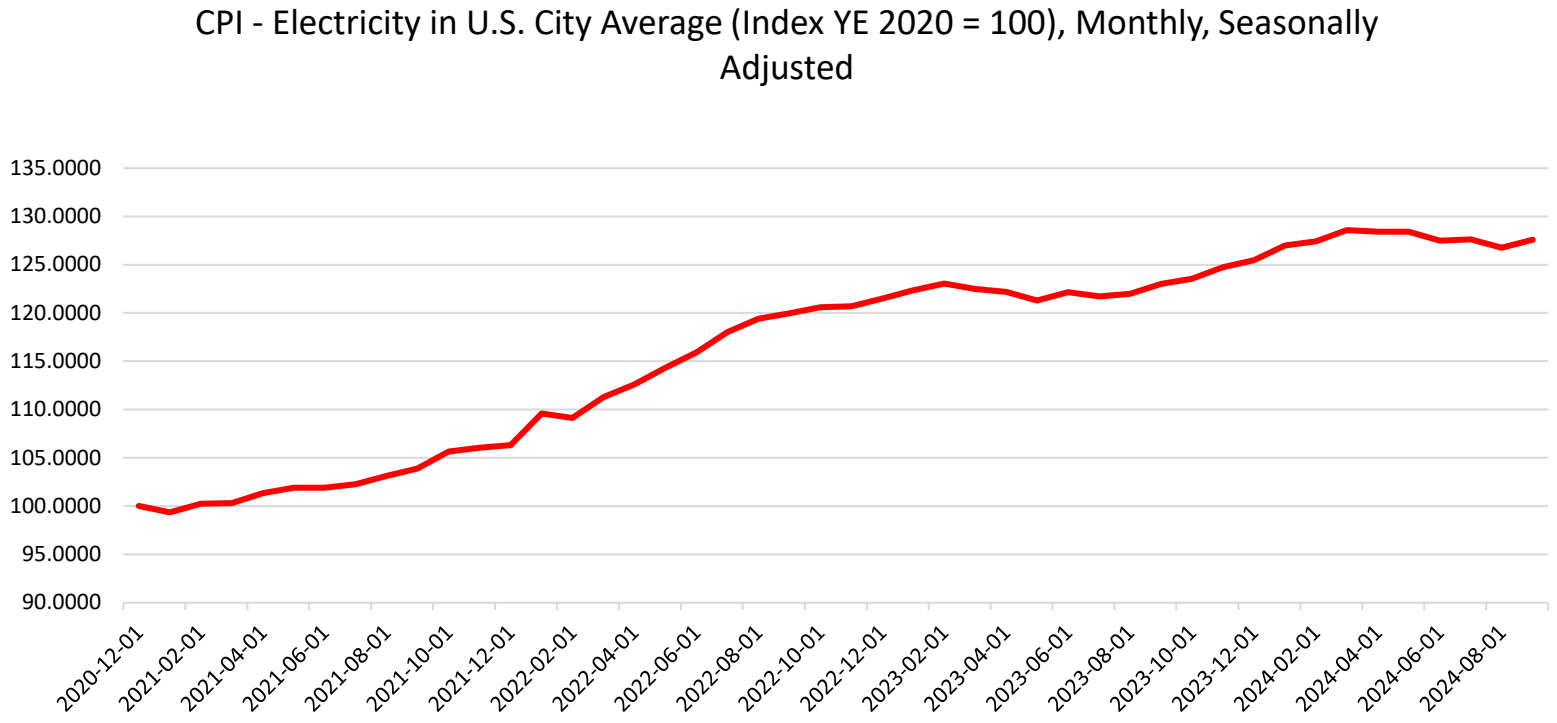
## Increase credit from $0.069554 to $0.08267 per kWh due to board policy

| Item | 2020 | 2021 | 2022 | 2023 | 3-Year Average 2020-2022 | 3-Year Average 2021-2023 |
|---|---|---|---|---|---|---|
| Avoided Energy Costs | $ 41.32 | $ 68.85 | $ 129.41 | $ 97.66 | **$ 79.86** | **$ 98.64** |
| Avoided Ancillary Services Costs | 1.85 | 14.51 | 5.51 | 6.30 | **7.24** | **8.77** |
| Avoided Transmission Costs | 22.60 | 23.08 | 21.35 | 21.36 | **21.65** | **21.93** |
| Avoided Capacity or Demand Costs | - | - | - | - | **-** | **-** |
| Avoided Distribution Costs | - | - | - | - | **-** | **-** |
| Avoided Regulatory Costs | - | - | - | - | **-** | **-** |
| **Value of Distributed Generation** | **$ 65.77** | **$ 106.44** | **$ 156.27** | **$ 125.32** | **$ 108.75** | **$ 129.34** |
| **Sustainable Power Credit ($/kWh)** | | | | | **$ 0.069554** | **$ 0.082666** |

- Sustainable Power Credit adjusts annually
- Calculated from the three-year average avoided costs of energy, ancillary service, and transmission
- Members with distributed generation (DG) less than 50 kW receive the credit for all surplus generation delivered to PEC's distribution system

# Summary Impacts of Proposed Rate Changes

# Electricity Cost Trends




**CPI Comparison**

| | Aggregate |
|---|---|
| **CPI Electricity Price Growth YE 2020 - Present** | **27.6%** |
| **PEC Rate Growth YE 2020 - Present** | **17.0%** |
| Base Power | 25.8% |
| TCOS | 33.5% |
| Delivery Charge | 4.7% |
| Service Availability Charge | 0.0% |

- Electricity CPI on constant upward trajectory since 2021, growing 28%
- PEC rate growth is substantially below national average
  - Most growth from TCOS and Base Power
- PEC Delivery and Service Availability Charges have remained stable. Through prudent cost management, PEC has kept cost increases lower than overall system growth

# Bill Impact of Base Power and SAC/Distribution Rate Changes

- Service Availability Charge, currently set at $22.50 (*$20.00 after eBilling and eDraft credits)
- For consideration, adjusting the SAC to $32.50 (*$30.00 for the basic billing package)

| Charges | Current | Proposed | Difference | Monthly Bill Impact** |
|---|---|---|---|---|
| Service Availability Charge | $20.00* | $30.00* | $10.00 | $10.00 |
| Delivery Charge | $0.028405 | $0.022546 | -$0.00586 | -$7.32 |
| Base Power Charge | $0.058500 | $0.061900 | $0.003400 | $4.25 |

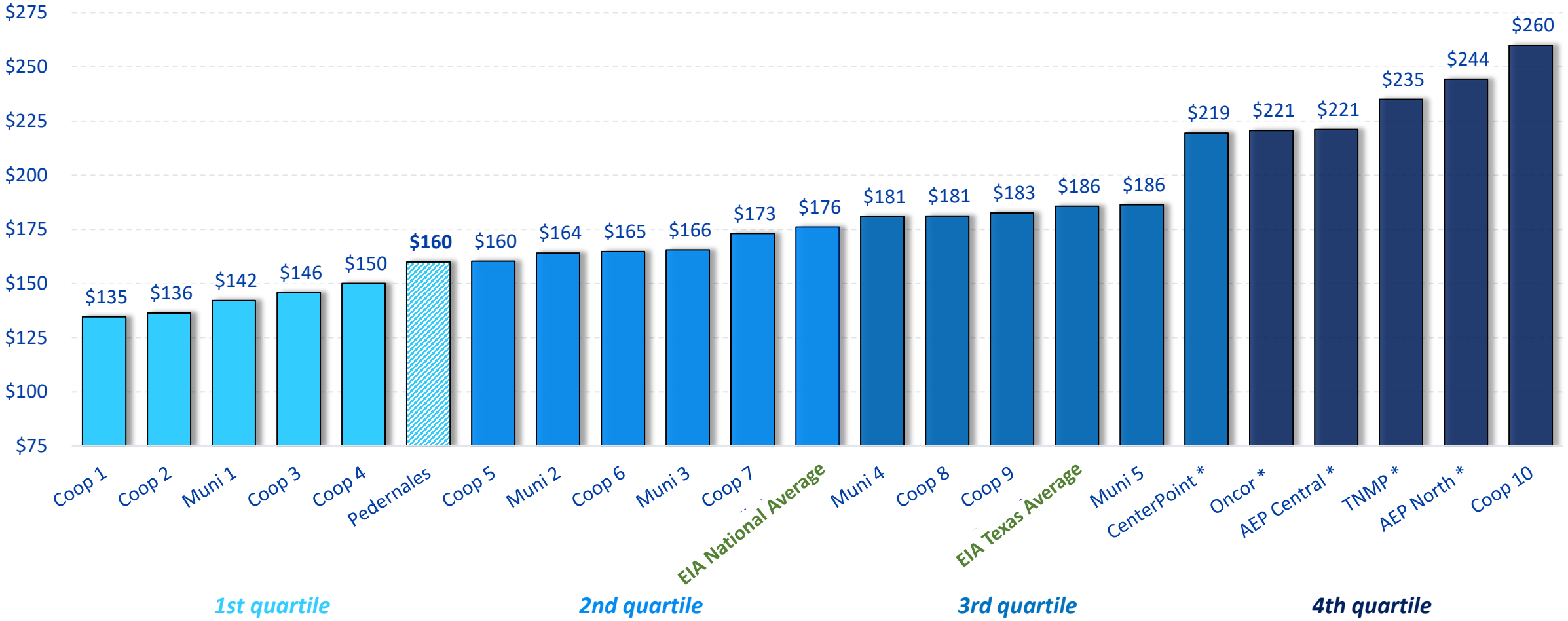
- Net increase of 4.5%, or $6.93/month due primarily to base power increase



***Calculated based on monthly usage of 1,250 kWh.*

# Residential Rate Comparisons

## Residential rates modeled as of March 2025 (1,250 kWh)



# Items to Be Reviewed in 2025

# Items for Continued Evaluation during 2025

## Continuing Evaluation Recommended For:

- Time-of-Use (TOU) pricing, time periods, and seasons
- Industrial Rate Distribution Cost Recovery
- Renewable Energy Rider

# Prospective Timelines

# Timeline for Resolutions


Helpful Links and Contact information

- Rate Policy and Cost of Service Study: https://www.pec.coop/about-us/your-cooperative/document-center/
- All Rate related questions - Rateinquiry@peci.com

pec.coop