

Cost of Service / Rate Design Study

City of Crete
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Presented by:
John A. Krajewski, P.E.

Overview of Presentation

- Introduction
- Projected Financial Results
- Cost of Service
- Rate Design
- Comparison to Neighboring Utilities
- Recommendations

Purpose of Study

- Review financial performance of electric utility
- Develop rates that reflect the cost of service and accomplish other goals established by the City
 - Rates that provide sufficient revenues to cover projected operating expenses
 - Rates that reflect the cost of service for each rate class
 - Rates that are competitive with neighboring utilities

Projected Financial Results

- Purpose
 - Compare revenues and expenses for current budget and future years through FY 2030
 - Determine need for future rate increases
- On a cash basis, deficit of \$719,000 in FY 2025 increasing to a deficit of approximately \$3.6 million in FY 2030
 - Between now and FY 2030, rates would need to increase 33% to cover projected deficit

Projected Financial Results

- Reasons for deficit
 - Increased purchase power expenses, particularly 9% rate increase from MEAN
 - Funding of City's capital improvement plan
 - General cost escalation

Cost of Service

- Purpose
 - Determine which rate classes cause the City to incur costs
 - Compare cost of service to revenue under existing rates
 - Determine need for rate changes

Cost of Service

- Findings
 - 7% rate increases needed in FY 2026 and FY 2027
 - Cost of service for customer-related service is \$24.95/month for residential
 - Currently, minimum charge is \$19.50/month

Rate Design

- Goals
 - Long-term financial integrity
 - Fair, reasonable and non-discriminatory rates
 - Competitive rates compared to neighboring utilities
 - Encourage use during low-cost periods
 - Discourage use during high-cost periods
 - Recognize the cost of service for each rate class and season

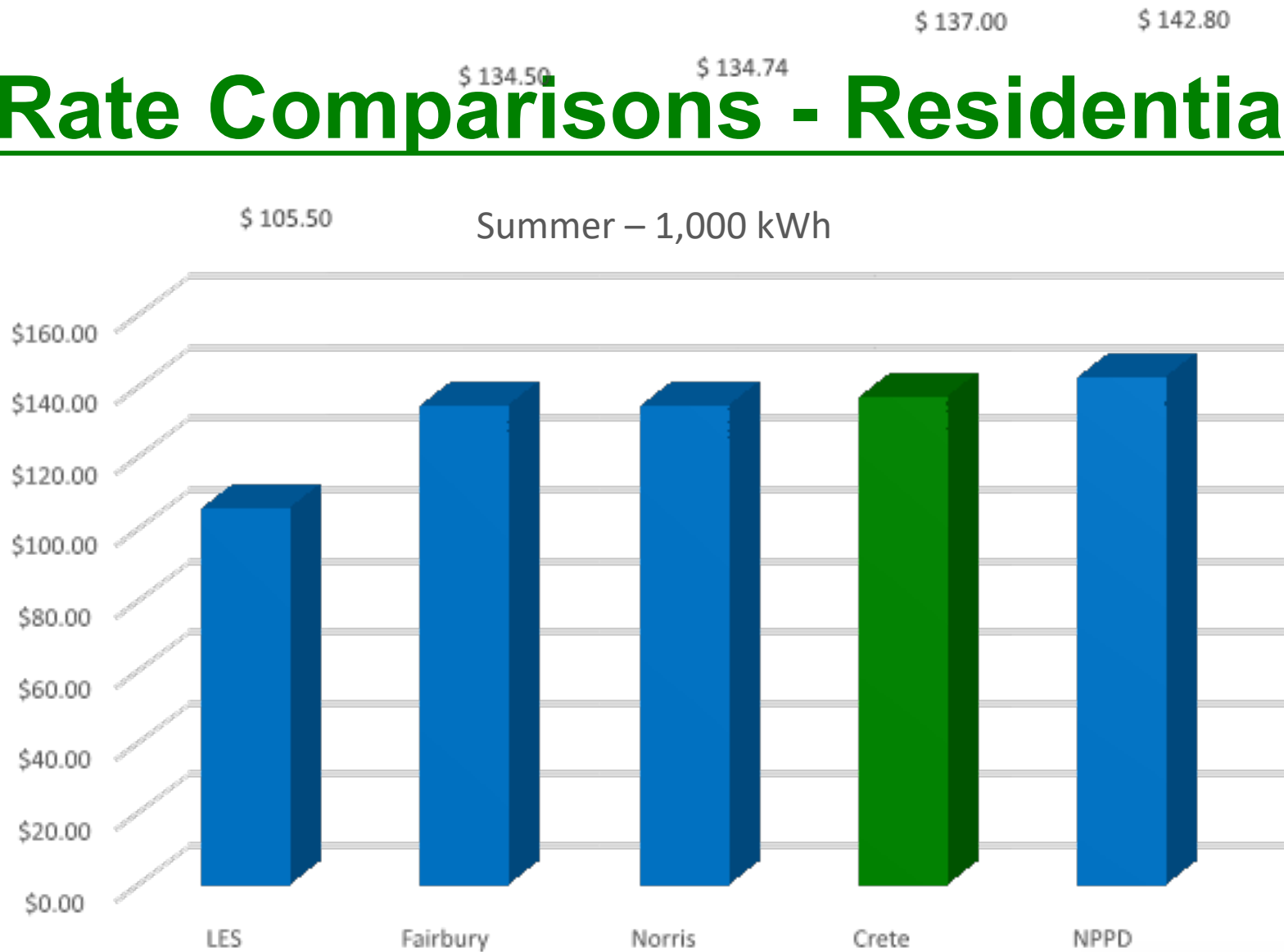
Proposed Rate Design Changes

- Increase the monthly customer charge
 - Existing customer charge does not cover the cost of service
- Reflect cost of service in rate change
 - Next slide shows rate changes for major rate classes and reflect cost of service results

Proposed Rate Changes

- Residential: 7%
- General Service: 5.8%
- General Service Demand: 6.9%
- Large Power: 7.4%

Rate Comparisons - Residential



\$ 118.99

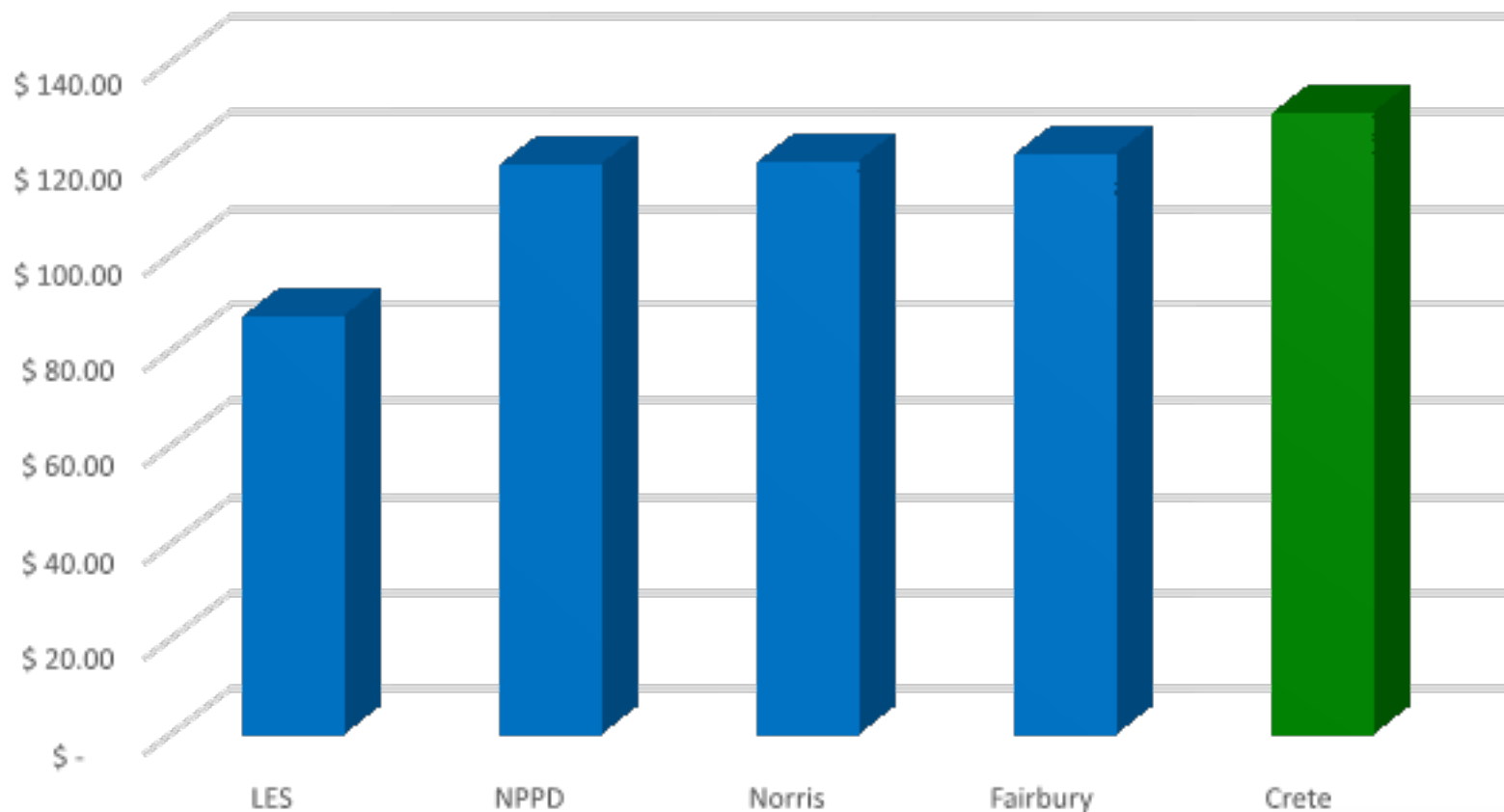
\$ 119.53

\$ 121.06

Rate Comparisons - Residential

\$ 87.00

Winter – 1,000 kWh



Conclusions

- Rate increases of 7% in FY 2026 and 7% in FY 2027 are necessary to ensure sufficient revenue to cover projected expenses
- Customer charge is less than the cost of service
- Cost of service indicated following rate changes relative to system average
 - General Service: Lower
 - Large Power: Higher
 - Residential / General Service Demand: Close to system average

Recommendations

- Adopt rate ordinance in Appendix A to implement a 7% rate increase on January 1, 2026 and 7% rate increase on January 1, 2027
- City should consider implementing 6% rate increases in FY 2028 and FY 2029, depending on cost trends
- Review rates on a regular basis, particularly as purchased power or internal operating costs increase

Contact Information

John A. Krajewski
JK Energy Consulting, LLC
74408 Road 433
Smithfield, Nebraska 68976
jk@jkenergyconsulting.com
Phone: 402-440-0227