January 11, 2021

Subject: UW 182 Revenue Requirement Settlement Conference

Dear Sir/Madam:

Attached are the Ridge at Eagle Crest Owners Association (RECOA)'s comments on Oregon Water Utility-Cline Butte's proposed revenue requirement in Docket UW 182. These comments are for consideration in this Wednesday's settlement conference.

Sincerely,

Michael DeWolf
RECOA representative

UW 182 Revenue Requirement Settlement Conference

Comments on Proposed Revenue Requirement

Ridge at Eagle Crest Owners Association (RECOA)

January 11, 2021

RECOA provides the following comments on two elements of OWU-CB's proposed revenue requirement: treatment of the Automatic Meter Read program and the automatic power cost adjustment mechanism. RECOA is relying on OPUC staff to vet other elements of the revenue requirement.

Treatment of Automatic Meter Read (AMR) replacement program

RECOA does not take exception with the necessity, purpose, scope or overall costs of the Automatic Meter Read program (AMR). RECOA disagrees with the treatment of this program in the revenue requirement, however. As documented in the utility's response to RECOA IR 3, installation of the upgraded meters occurred during the latter half of the test year, 2019. While the cost of the investment is captured in the revenue requirement, the full benefits of the investment are not reflected either because they are ignored or not fully realized and captured in test year costs and revenues. This imbalance between program costs and benefits needs to be corrected.

Benefits:

- **Incremental revenues due to reduced water losses.** During the planning and implementation of the AMR program, Utility employees indicated at RECOA's Utility Review Committee's monthly meetings, on a number of occasions, that one of the major benefits of the new meters would be more accurate measurement of water usage. RECOA was told that the previous meters ``slow down" over time and under-measure actual water usage. OWU-CB water losses are defined as the percentage difference between the metered water pumped from OWU wells into the system and the metered water delivered to customers. RECOA was told that, before the replacement program, OWU-CB losses exceeded industry standards, and that the expected reduction in losses from installing the new meters was in the 4-5% range. In its filed testimony, the Utility listed a number of benefits from the AMR program, however, a reduction in losses and the resulting increase in revenues was not mentioned, and no adjustment was made to test year revenues in the proposed revenue requirement determination.

  RECOA has asked a series of questions (IRs) of the utility to understand what reduction in losses OWU-CB has experienced after installing the new meters. All 1718 new meters were installed in the summer and early fall of 2019 (RECOA IR 3). It appears that the actual reduction in losses was 4.29%. (sources: UWU/101, Bahr/6, OWU/104, Bahr/6, RECOA IR 24). (RECOA received an informal email from OWU-CB, in response to an email request from RECOA, with one of the key numbers used in the calculation below of a proposed adjustment to test year revenue. RECOA then formalized the request in RECOA IR 24, but OWU-CB has not responded to that request as

of this date.) RECOA's proposed adjustment to OWU-CB proposed adjusted revenues and revenue requirement is **-$14,750**. (test year losses of 11.75% less 2020 losses of 7.46% = 4.29% of loss reduction x $343,685 of 2019/test year usage revenue).

- **Labor savings.** The AMR investment yields labor savings that should be reflected in the revenue requirement. During the planning and implementation of this program, RECOA's Utility Review Committee received monthly reports on the program's progress and expected benefits. Among the benefits are labor savings. Whereas before, meter readings had to be taken by staff visiting the meter at each residence each month, the readings can now be transmitted electronically -- thereby reducing the number of staff-hours needed to read, collect and report water usage for billing purposes. The estimates provided on several occasions were that, what previously required about 2 staff to collect monthly readings over about a 2-week period each month (~80 hours), now requires about 1 staff over about ½ day each month (~4 hours).

  In RECOA IR 4, we asked the company to "specify the labor savings that that utility is experiencing from the upgraded meters investment, and explain how these savings are reflected in the rate proposal." The utility's reply was not responsive: "Because labor costs are relatively fixed in the short term, the installation of upgraded meters has not resulted in explicit labor savings, but rather allows for the reallocation of labor from meter reading to addressing other system needs."

  In RECOA IR 20, we pressed further. In response, the utility stated, "Staff hours needed read meters have decreased due to installation and implementation of the new meters. OWU-CB has not quantified this time savings . . ." These savings are readily estimated, as the utility itself was able to do during the course of the program's implementation. The fact that staff time was reallocated away from meter reading to other purposes is beside the point.

  Assuming staff hourly costs to perform meter reading work at ~$25.00/hour, we calculate monthly labor savings of $1,900, or annual savings of $22,800.

Power Cost Automatic Adjustment Clause

(Testimony of B. Bahr, pages 21-22, and Schedule No.6, p.47)

OWU-CB has not demonstrated it needs a power cost adjustment mechanism

- A power cost adjustment mechanism is, in most respects, a new, additional rate. New rates such as this demand a *full* justification if they are to be adopted. What is the problem that the mechanism is intended to solve? Why is the mechanism needed, and what steps have been taken to manage the need? How does the proposed design make good policy sense? The utility has not provided little of this justification.

- Historically, Central Electric Cooperative's power rates have been stable and predictable. In RECOA IR 10, the utility was asked to provide a 5-year history of Central Electric Cooperative's power rates that have applied to Cline Butte. The utility did not respond with information for the first 2 years of the requested 5 years of historical data. The utility did provide data for 2017 and 2018, when no increase occurred, and for 2019, when an increase in the facilities charge and demand charge for over 15,000 kW occurred, while electricity rates were decreased.
- While the utility argues that power costs are a large share of its operating costs, this share has been variable, with the 2019 test year's percentage share of O&M costs by far the highest. In its response to RECOA IR 8, OWU-CB reported that:

  > "Power costs represent **31.8%** of OWU-CB's requested test year O&M expenses ($148,209/$465,692). In 2018, power costs represented **19.3%** of OWU-CB's reported O&M, as reported in OWU-CB's annual report of operations ($151,634/$784,761). OWU-CB does not have full year costs for 2017 as OWU-CB was acquired mid-year, but the portion for the **partial year** after OWU-CB's acquisition is **20.6%** ($104/$505,971). In 2016, power costs represented **16.4%** (115,591/$705,298. In 2015, power costs represented 19.5% ($109, 123/$558.286). In 2014, power costs represented **24.0%** ($105, 178/$438,088). .." *(bolding added)*
- The utility provides no evidence that it has sought to influence the power rates that it is charged by its power provider, Central Electric. No significant evidence of contacts with CEC in this regard, and OWU has not intervened in CEC's rate-setting process. It is inappropriate to request a cost pass-through to customers if all efforts to minimize power rates and power costs have not been undertaken first. In RECOA IR 10, OWU was asked, "With regards to your statement that, 'Rates charged by CEC are outside of OWU-CB's control', please describe OWU-CB's efforts, if any, to intervene in CEC's rate setting process or to otherwise influence the electricity rates that OWU-CB pays." OWU's response was simply that it has not taken any actions to try to change the rates that were determined in CEC's last rates process in 2017.
- Scant evidence has been presented that OWU has sought to reduce its power needs through energy efficiency measures. In RECOA IR 11, the utility was asked to describe the conservation efforts, if any, that OWU-CB has undertaken to reduce its demand for power from CEC. In its response, the utility stated that:

  > "Regarding pump efficiency, to date, OWU-CB has reactively replaced pumping equipment that has failed, for which no grants were available. OWU has discussed with CEC the possibility of receiving limited grants/rebates for certain projects, but the amount of grants/rebates would likely not be enough to offset the costs of any efficiency improvement projects."

  In RECOA IR 13, OWU was asked, "Has OWU-CB consulted with CEC on use of CEC's energy conservation programs to reduce OWU-CB's energy demand? If so, has one or more of CEC's programs been adopted and applied? Is so, what effects have CEC programs had on OWU-CB's demand?" In its response to IR 13, the utility stated that it "has looked into several energy efficiency programs, but to date has not identified any for which it qualifies or would prove to be economical."

We take these responses to mean that the utility's efforts have been half-hearted, at best, in collaborating with CEC to develop a tailored, efficiency-oriented grant or program. Moreover, we take these responses to mean that the economics of any investment in pump efficiency are being approached from a utility perspective, not a customer rate perspective. In other words, it's easier for the utility to simply pass the posts costs on through an automatic adjustment mechanism rather than negotiate an efficiency grant or program and imbed any residual investment costs in the revenue requirement.

The design of the power cost automatic adjustment mechanism is fatally flawed

- As designed, *all* power rate risk is shifted from the utility to ratepayers. With the proposed mechanism, the utility will bear no risk of power rate increases -- if CEC were to increase its power rates, the full impact will immediately be passed on to ratepayers.
- There is no minimum threshold test before the utility would pass on a power rate increase to its customers. There is also no cap on the size of an increase that would be passed on. No matter how small or how large the increase, customers would bear all the brunt. (See response to RECOA IR 9.)
- There is no limit on the frequency of rate adjustments under the mechanism. (Response to RECOA IR 9.)
- Further, there is no delay in passing on the impact of a power rate increase to ratepayers -- the pass-through could and would start immediately after CEC imposed a power rate increase. (Response to RECOA IR 9).
- In short, the utility would bear no power cost risk -- it would absorb none of any power increase.
- Further, the mechanism's design provides no incentive for the utility to manage its power consumption -- no incentive to conserve power and no incentive to work with CEC to design and implement energy efficiency measures. (Response to RECOA IR 12)

The proposal to add a power cost automatic adjustment mechanism should be denied because the case has not been made. The need is not demonstrated, and the proposed design is seriously flawed. We anticipate that any settlement will call on the utility to file a new rate case within a period of a few years so that further progress can be made on correcting imbalances in rate design. The utility's power costs could be revisited at that time.