

# Rate Setting Reference Document

## Report on the Rate Setting Policy

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### Overview

The Rate Setting Reference Document accompanies Platte River's board adopted rate setting policy. Service offerings and supporting rate structures should maintain Platte River's three pillars of providing reliable, environmentally responsible and financially sustainable electricity and services as well as complement the strategic objectives, underlying policies and values of the organization. When in alignment, pricing signals and associated economic incentives are well understood by all stakeholders vested in the utility's success. This framework, or philosophy, describes an approach to rate making including objectives to be achieved both in the near-term and over the long-term planning horizons. Important benefits of a rate setting policy include increased transparency in the rate setting process and creating a common understanding of the reasoning and justification behind Platte River's proposed service offerings and rates. This document and its future revisions are intended to serve as a "living document" to provide a long-term perspective and focus on ratemaking as Platte River's owner communities, management, staff and other important stakeholders address critical issues in a dynamic and rapidly evolving utility environment.

It is the policy of Platte River to establish service offerings and supporting rate structures that complement the strategic objectives, underlying policies, and values of the organization. To that effect, the general manager/ceo will direct staff to develop and maintain the Rate Setting Reference Document, which will include rate-related goals important to the rate setting process and guiding rate principles which service offerings and supporting rate structures should achieve.

### Platte River Rate-Related Goals

Platte River has identified the following goals important to the rate setting process. These goals are as follows:

- **Improve Value Added of Platte River in Support of Owner Communities**

The definition and perception of value may vary between owner communities, but for Platte River, value is defined by providing the highest quality products and services to the owner communities, at a price, when compared to other alternatives, that clearly offers the "best deal" or the highest value added for services rendered.

- **Offer a Desirable Portfolio of Services and Rates That Meet Owner Communities' Needs**

Platte River's objective is to offer choices that allow owner communities to meet their objectives. Given that each owner community has unique objectives, some objectives may conflict with each other. With its best efforts, Platte River will accommodate owner communities' needs while establishing services and rates within Platte River's stated financial goals and underlying cost of service principles.

- **Better Align Wholesale TOU Pricing Signals with Cost of Service and Owner Community Retail Pricing Signals**

Under Platte River's current Tariff—Schedule 1: Firm Resale Power Service (Tariff 1) rate structure, demand-related costs are recovered monthly based on the owner communities' contribution to the Platte River system peak, or coincident peak. From a TOU perspective,

the Tariff 1 rate structure concentrates the entire demand-related costs into a single hour each month. This rate structure, when translated into retail TOU rates offerings of the owner communities, may send a distorted TOU pricing signal associated with Platte River's demand-related costs at the time of the Platte River system peak. Given increasing interest and use of TOU retail rates by the owner communities, Platte River will consider wholesale rate structures that appropriately consider and quantify the cost of service at different time periods throughout the day and year.

- **Send Pricing Signals that Result in System Benefits**

Similar to the perception of value, the definition and perception of System Benefits may vary between Platte River owner communities. For the purposes of rate design, Platte River defines System Benefits as:

- The encouragement of efficient use of utility infrastructure to maximize short- and long-run marginal cost savings.
- Short-run marginal cost savings means maximize opportunities in the daily wholesale power market.
- Long-run marginal costs are typically defined as those costs associated with infrastructure improvements within a five- to ten-year planning horizon (beyond the scope of annual or short-term budgeting, for example). A reduction in long-run marginal costs may be determined by the delay or avoidance of future capital-intensive infrastructure additions, such as a power plant. Utilizing a net present value approach, the reduction in future costs or delay of the anticipated need for such investment results in savings to Platte River.
- Service offerings and associated rate design can send a price signal to owner communities, and through the owner communities to end-use customers to encourage the efficient use of utility investment. By creating a pricing system that encourages users to have a higher system load factor, Platte River will utilize its existing investment in a more efficient manner. As a result of greater efficiency, the average system costs can be reduced and passed to the owner communities in the form of potentially lower rates.
- Cost based recovery of all product and service offerings that align with Platte River strategic initiatives and meet owner community needs.

## Guiding Principles

To accomplish the above described goals, Platte River is frequently evaluating current service offerings and rate structures. Platte River's service offerings and supporting rate structures should balance the following:

- **Maintain Utility Financial Strength and Viability to the Benefit of the Owner Communities**

A financially strong utility offers owner communities flexibility and options when faced with financial uncertainty, price volatility, and market threats and opportunities.

For Platte River, the Strategic Financial Plan provides direction to create long-term financial sustainability, manage financial risk and support Platte River's mission, vision

and values. The priorities of the SFP are to generate adequate cash flows, maintain access to low-cost capital, provide wholesale rate stability and maintain sufficient liquidity for operational stability.

- **Adequate Recovery of Fixed Costs**

Fixed cost recovery is a focus of Credit Rating Agencies' determination of credit worthiness of a utility. Credit Rating Agencies also recognize that rate design is a strong and effective risk management tool for Platte River. Rate structures that adequately recover fixed costs and reduce operational and credit risk will thereby improve Platte River's credit ratings.

- **Rates Must Be Fair, Equitable and Defensible**

Fairness, equity and defensibility are measured against sound economic principles as described in the subsequent supporting principle in consideration of Platte River board's policy.

- **Rates Will Be Based on Sound Economic Principles and Business Practices**

Service offerings and supporting rate structures should appropriately reflect cost of service principles that align with Platte River's strategic plan and desired System Benefits. Supporting utility economics should consider Platte River's embedded costs and its short- and long-run marginal costs.

- **Rates Structures Should Be Stable Over the Long Run**

To the extent practically possible, changes to existing rate structures should be phased-in gradually over time to minimize adverse economic impacts on owner communities and their customers. Further, adopted rate structures should be evaluated frequently so that future changes are made in a timely fashion with lessened impact on owner communities.

- **Rate Offerings Should Be Flexible**

Platte River's business environment is rapidly changing given the increasing importance of renewable resources and technological improvements that enable an increasingly diverse portfolio of distributed generation and demand response options. Additionally, the changing owner community loads and the openness to new approaches and business models by the retail customer are impacting Platte River's business environment. To meet these challenges, Platte River should offer to its owner communities (and through the owner communities to their customers) a variety of desired and flexible service options. These service offerings should be forward looking and be soundly based on cost of service methodology, as well as anticipated changes in Platte River's costs, owner community loads and anticipated responses to service offerings.

- **Service Offerings Should Demonstrate High Value to Owners**

Services and rates should be offered at a competitive price compared to similar services provided by other wholesale electric utilities in the region.

- **Platte River Should Continue to Effectively Manage Generation Risk**

Platte River's long-term strategic plan contemplates a transitioning generation portfolio that moves away from primarily baseload coal generating assets to increasing renewable and distributed generation options, which will impact Platte River's cost of service. Rate

design must adequately address these changes in cost structure to effectively provide an effective risk management tool for the owner communities.

- **Improve Pricing Signals to Owner Communities and Their Customers**

Rate structures send pricing signals that incentivize a response in the form of changes in energy usage. In this sense, the pricing signal itself is the incentive, rather than a rebate or credit from Platte River. For Platte River, these signals should encourage System Benefits and provide the owner communities valuable information so that they can translate the wholesale rate to their retail customers in a manner best suited for each owner community. Specific attributes of improved pricing signals are:

- *Transparency* – the various services provided by Platte River to the owner communities embedded within a rate structure should be easily identified.
- *Ease of understanding* – the desired incentives and financial impact of changes in energy usage should be easy to understand.
- *Reward behavior that yields System Benefits* – an effective incentive must be consistent with economic reward.
- *Align with other programs* – rate structures should complement other programs offered by Platte River to the owner communities.
- *TOU cost-based rate pricing signal* – rate design options should support owner community TOU applications (retail rates). For such circumstances, Platte River rates should send appropriate pricing signals that are supported by cost of service.