



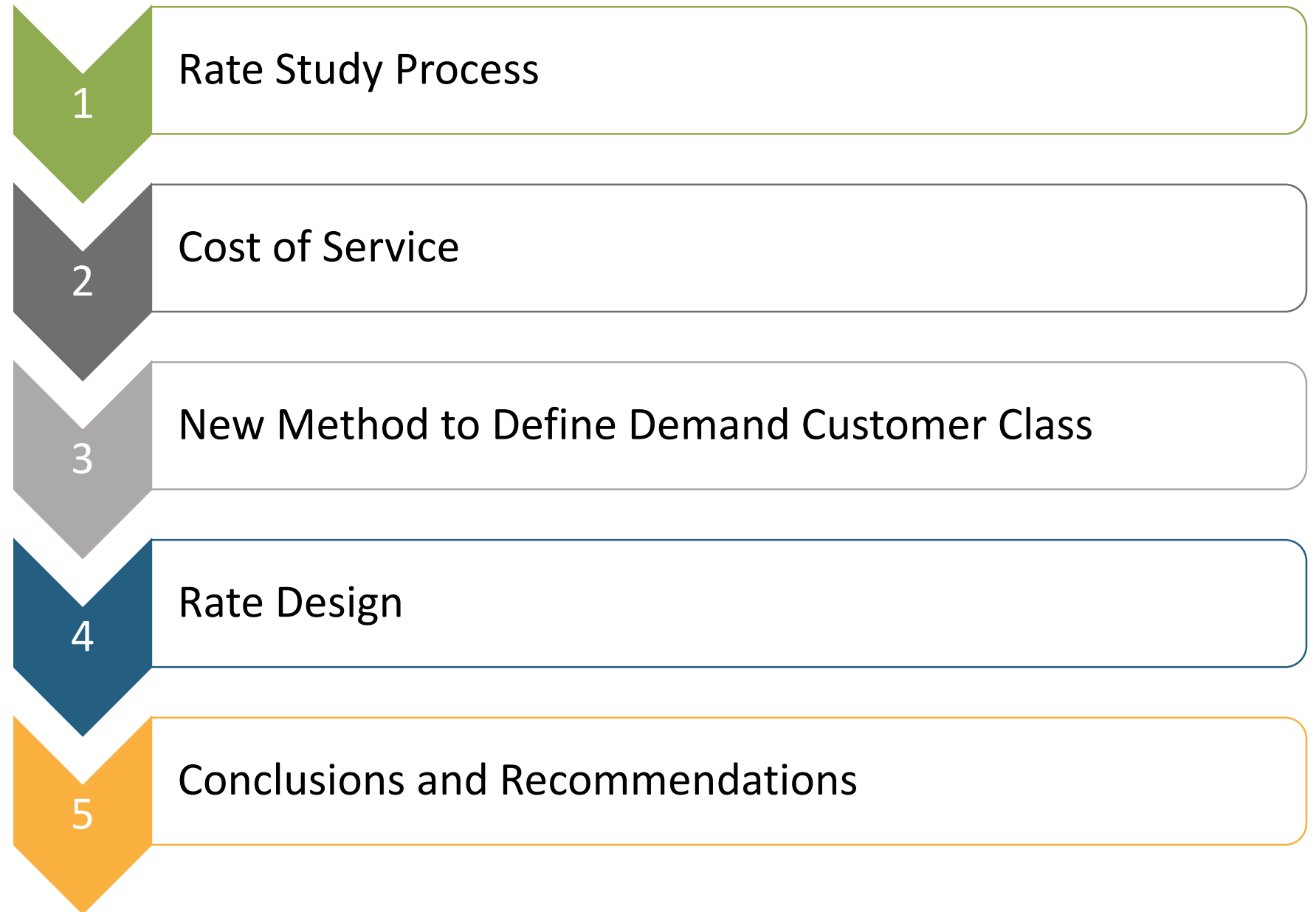
July 16, 2025

# KERRVILLE PUBLIC UTILITY BOARD ELECTRIC RATE STUDY



NewGen  
Strategies & Solutions

# RATE STUDY AGENDA





# RATE STUDY PROCESS

# WHY DO A RATE STUDY?

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- Understand the utility's costs and drivers
  - Different costs to serve different customer classes
- Set rates to collect sufficient revenue
  - Fair and equitable
  - Fixed cost recovery
  - Send the customer pricing signals
  - Understand effects on customers
- Defensible rates
  - Industry standard methods

# WHEN TO DO A RATE STUDY?

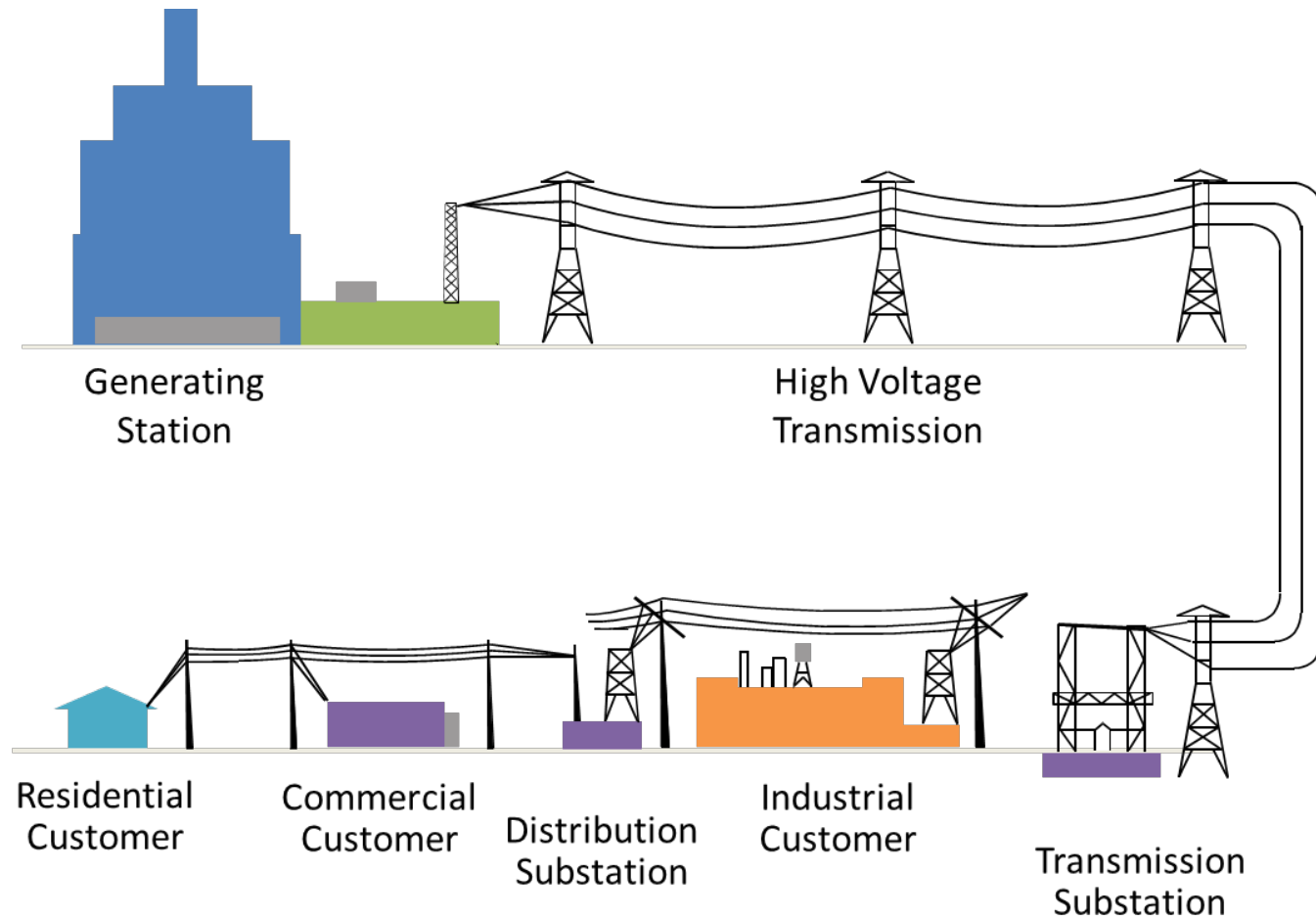
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- Cash reserve issues
- Change in customer load (large customer, electrification, DG)
- Change in power supply (utility-owned, contract, market)
- Change in capital plan/funding needs
- Change in operating costs
- Change in technology (AMI)
- Length of time since last study
  - Industry standard: typically, every 3 to 5 years



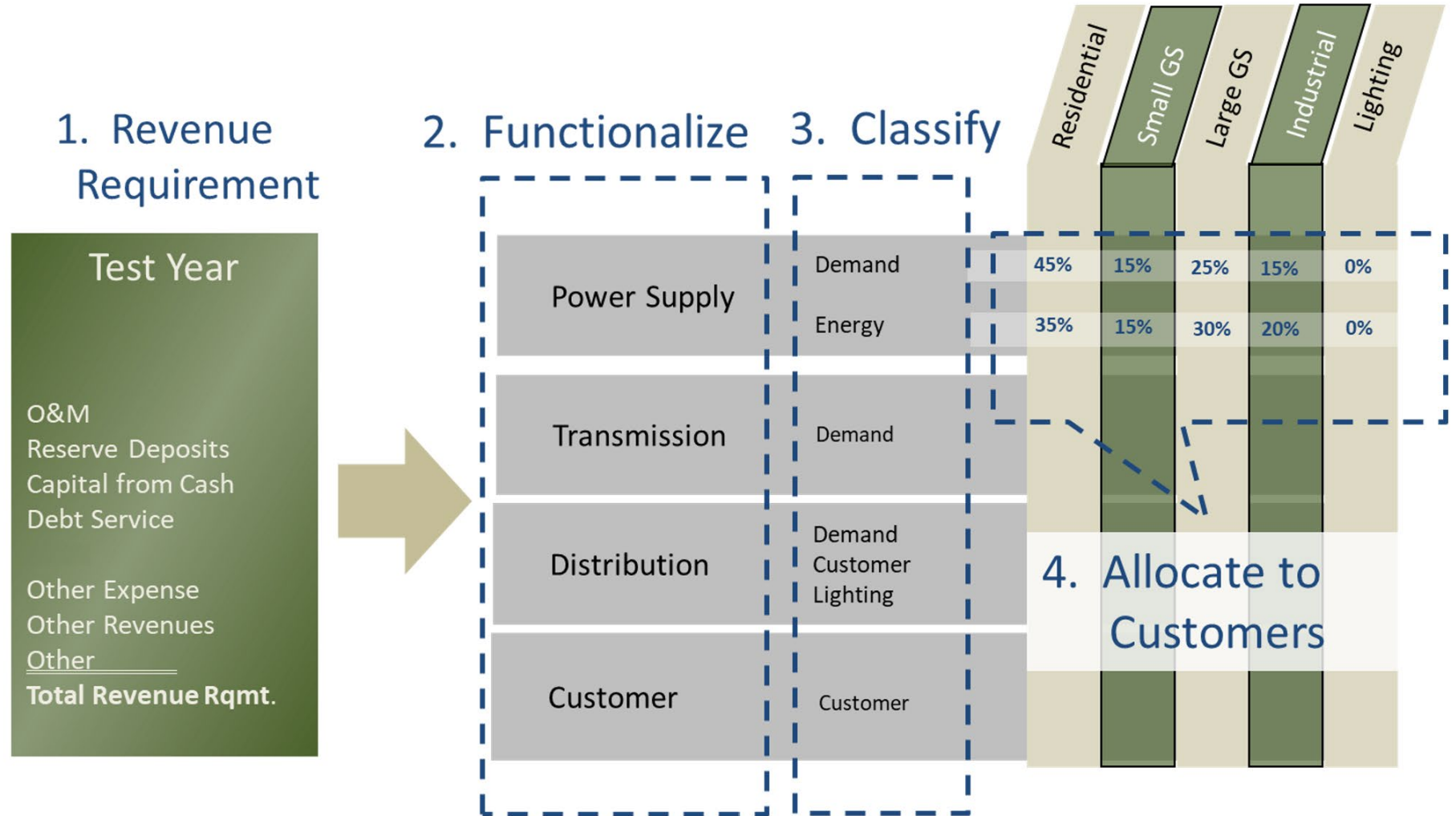
COST OF SERVICE

# SERVICES PROVIDED TO CUSTOMERS



- Where does the customer take power on the system (voltage)?
- When does the customer use power (customer load profile)?

# COST OF SERVICE MODEL DESIGN



*Generic example, not specific to KPUB*

# REVENUE REQUIREMENT

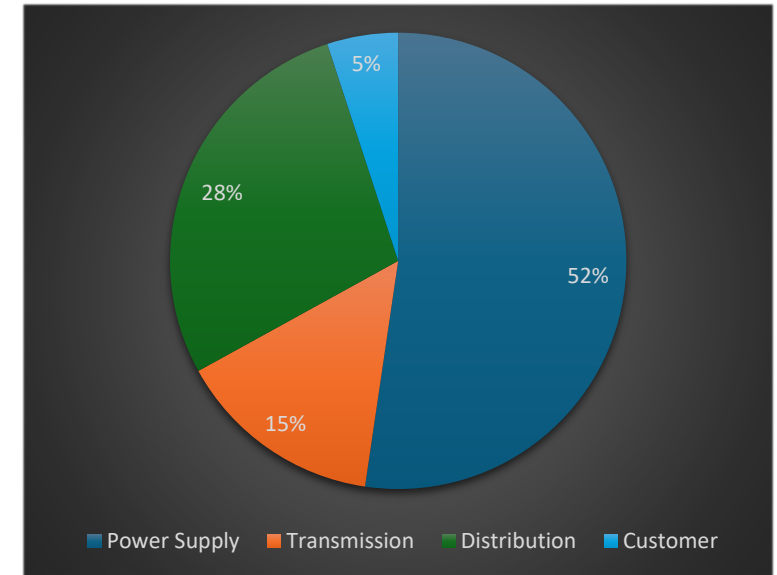
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| Component                                                      | Rev. Req. (millions) |
|----------------------------------------------------------------|----------------------|
| Cash O&M Expenses                                              | \$ 56.96             |
| Capital from Cash                                              | \$ 6.43              |
| Debt Service (KPUB only)                                       | \$ 0.53              |
| Franchise and Contributions                                    | \$ 1.96              |
| Other Operating Revenues (late payment fee, pole rental, etc.) | (\$ 0.72)            |
| Misc Revenues (merchandising, jobbing, contract work, etc.)    | <u>(\$ 0.04)</u>     |
| Revenue Requirement                                            | \$ 65.13             |

*Revenue Requirement is based on an average of FY 2026 through FY 2030*

# COST OF SERVICE: FUNCTIONALIZED

| Component                  | Revenue Requirement (millions) | \$/kWh (sales)   | % of Total  |
|----------------------------|--------------------------------|------------------|-------------|
| Power Supply               | \$34.08                        | \$0.06525        | 52%         |
| Transmission               | \$9.55                         | \$0.01828        | 15%         |
| Distribution               | \$18.23                        | \$0.03489        | 28%         |
| Customer                   | \$3.28                         | \$0.00627        | 5%          |
| <b>Revenue Requirement</b> | <b>\$65.13</b>                 | <b>\$0.12469</b> | <b>100%</b> |

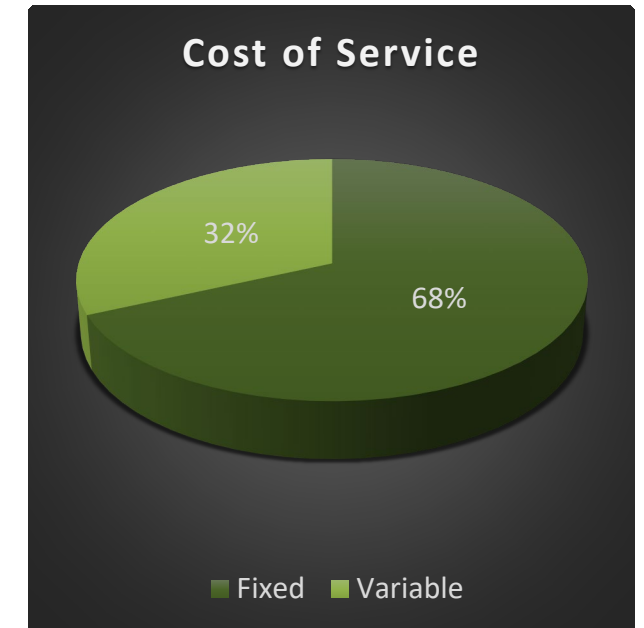
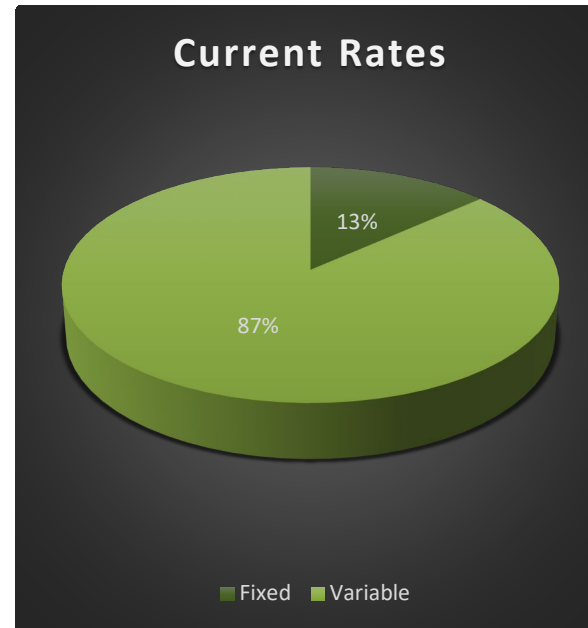


Transmission is separated from Power Supply in the Cost of Service

*Transmission, Distribution, Customer, and a portion of Power Supply costs are primarily fixed in nature and do not vary with changes in Energy Consumption.*

# COST OF SERVICE: FIXED VS. VARIABLE COST RECOVERY

| Typical Cost Functions | Typical Cost Classifications                             |
|------------------------|----------------------------------------------------------|
| Power Supply           | Demand Related<br>Energy Related                         |
| Transmission           | Demand Related                                           |
| Distribution           | Demand Related<br>Customer Related<br>Direct Assignments |
| Customer Service       | Customer Related                                         |

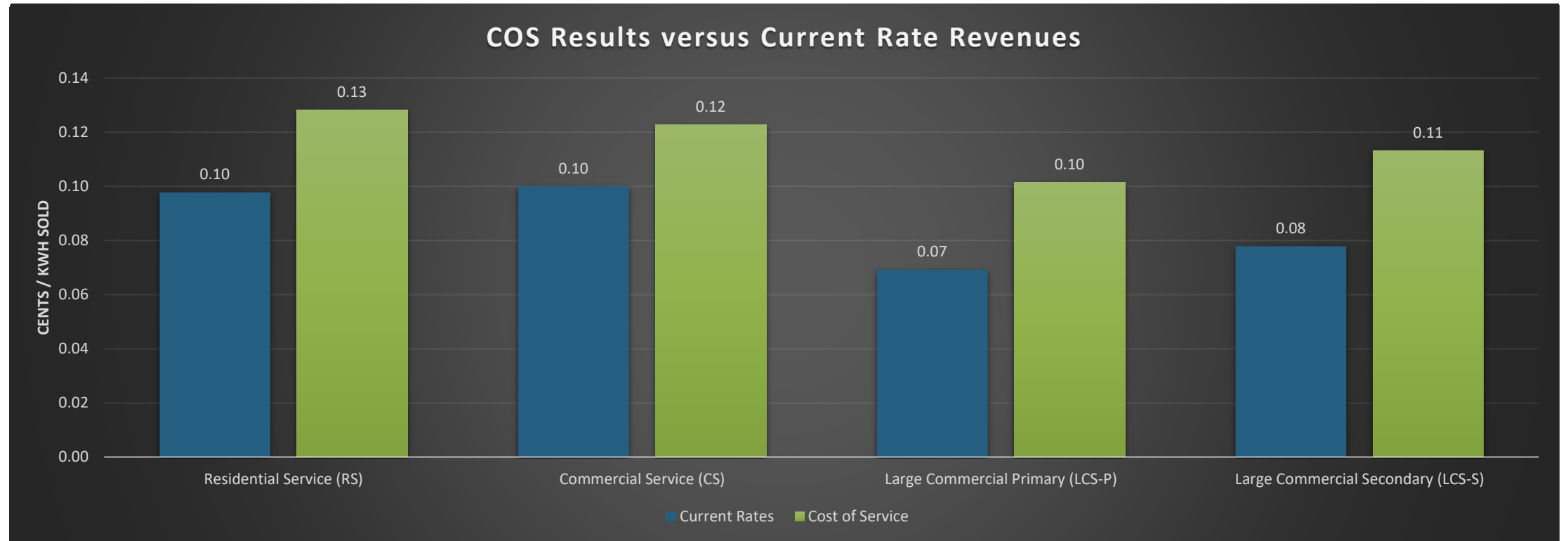


Ratio will vary based on PCAF.

# COST OF SERVICE RESULTS

| Class                         | Cost of Service<br>(millions) | Test Year<br>Revenues at<br>Current Rates<br>(millions) | Under (Over)<br>Cost Recovery<br>(millions) | Difference from<br>Test Year Revenues<br>at Current Rates:<br>Increase<br>(Decrease) |
|-------------------------------|-------------------------------|---------------------------------------------------------|---------------------------------------------|--------------------------------------------------------------------------------------|
| Residential                   | \$37.82                       | \$28.85                                                 | \$8.96                                      | 31%                                                                                  |
| Commercial                    | \$20.20                       | \$16.46                                                 | \$3.73                                      | 23%                                                                                  |
| Large Commercial<br>Primary   | \$1.41                        | \$0.96                                                  | \$0.45                                      | 47%                                                                                  |
| Large Commercial<br>Secondary | \$5.35                        | \$3.68                                                  | \$1.66                                      | 45%                                                                                  |
| Lighting                      | \$0.32                        | \$0.50                                                  | (\$0.17)                                    | (34%)                                                                                |
| Total                         | \$65.12                       | \$50.47                                                 | \$14.65                                     | 29%                                                                                  |

# COST OF SERVICE RESULTS COMPARED TO CURRENT RATE REVENUES (CENTS/KWH)



*\*Lighting is over-recovering but represents a negligible portion of revenues.*



NEW METHOD TO DEFINE DEMAND CUSTOMER CLASS

# CURRENT CUSTOMER CLASSES

| Rate Class                                         | Description                                                                                                                       | Bill Structure                                                                    |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| <b>Residential Service (RS)</b>                    | <ul style="list-style-type: none"> <li>- Homes, apartments (individually metered)</li> <li>- Single-phase service only</li> </ul> | - Customer Charge, Energy Charge, Power Supply Charge, PCAF Charge                |
| <b>Commercial Service (CS)</b>                     | <ul style="list-style-type: none"> <li>- Businesses under 400 kW demand</li> <li>- Single/three-phase options</li> </ul>          | - Customer Charge, Energy Charge, Power Supply Charge, PCAF Charge                |
| <b>Large Commercial Service- Secondary (LCS-S)</b> | <ul style="list-style-type: none"> <li>- 400 kW+ monthly demand</li> <li>- Secondary voltages</li> </ul>                          | - Customer Charge, Energy Charge, Demand Charge, Power Supply Charge, PCAF Charge |
| <b>Large Commercial Service- Primary (LCS-P)</b>   | <ul style="list-style-type: none"> <li>- 400 kW+ monthly demand</li> <li>- Primary voltages</li> </ul>                            | - Customer Charge, Energy Charge, Demand Charge, Power Supply Charge, PCAF Charge |
| <b>Outdoor Area Lighting (OAL)</b>                 | <ul style="list-style-type: none"> <li>- Unmetered security lighting</li> <li>- Fixed monthly fees</li> </ul>                     |                                                                                   |
| <b>Street Lighting (SL)</b>                        | <ul style="list-style-type: none"> <li>- Public roadway lighting</li> <li>- Metered &amp; unmetered options</li> </ul>            |                                                                                   |

# NEW MEDIUM COMMERCIAL RATE CLASS

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- The Medium Commercial class was created to better recover costs from commercial customers who exceed 25 kW, ensuring rates better align with the cost of service
  - The proposed Medium Commercial class has demand charges
- Currently, Commercial Service (CS) has a demand charge only if the customer uses more than 2,500 kWh in a month
- The majority of new Medium Commercial customers would see a 2–3% increase in their total bill when moving from current CS rates to Phase 1 Medium Commercial rates
- Approximately 850 current CS customers would qualify for the proposed Medium Commercial class

# PROPOSED CUSTOMER CLASSES

| Rate Class                                         | Description                                                                                                                       | Bill Structure                                                                    |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| <b>Residential Service (RS)</b>                    | <ul style="list-style-type: none"> <li>- Homes, apartments (individually metered)</li> <li>- Single-phase service only</li> </ul> | - Customer Charge, Energy Charge, Power Supply Charge, PCAF Charge                |
| <b>Commercial Service (CS)</b>                     | <ul style="list-style-type: none"> <li>- Businesses under 25 kW demand</li> <li>- Single/three-phase options</li> </ul>           | - Customer Charge, Energy Charge, Power Supply Charge, PCAF Charge                |
| <b>Medium Commercial Service (CM)</b>              | <ul style="list-style-type: none"> <li>- Businesses over 25 kW demand</li> <li>- Businesses under 400 kW demand</li> </ul>        | - Customer Charge, Energy Charge, Demand Charge, Power Supply Charge, PCAF Charge |
| <b>Large Commercial Service- Secondary (LCS-S)</b> | <ul style="list-style-type: none"> <li>- 400 kW+ monthly demand</li> <li>- Secondary voltages</li> </ul>                          | - Customer Charge, Energy Charge, Demand Charge, Power Supply Charge, PCAF Charge |
| <b>Large Commercial Service- Primary (LCS-P)</b>   | <ul style="list-style-type: none"> <li>- 400 kW+ monthly demand</li> <li>- Primary voltages</li> </ul>                            | - Customer Charge, Energy Charge, Demand Charge, Power Supply Charge, PCAF Charge |
| <b>Outdoor Area Lighting (OAL)</b>                 | <ul style="list-style-type: none"> <li>- Unmetered security lighting</li> <li>- Fixed monthly fees</li> </ul>                     |                                                                                   |
| <b>Street Lighting (SL)</b>                        | <ul style="list-style-type: none"> <li>- Public roadway lighting</li> <li>- Metered &amp; unmetered options</li> </ul>            |                                                                                   |



RATE DESIGN

# COST OF SERVICE TO RATE DESIGN

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## Cost of Service

Revenue Requirement  
Functionalize  
Classify  
Allocate

- Guide for cost-based rates

## Rate Making

Policy decisions  
Incentivize behavior  
Rates do not always  
match cost of service  
(but should be  
informed by cost of  
service)

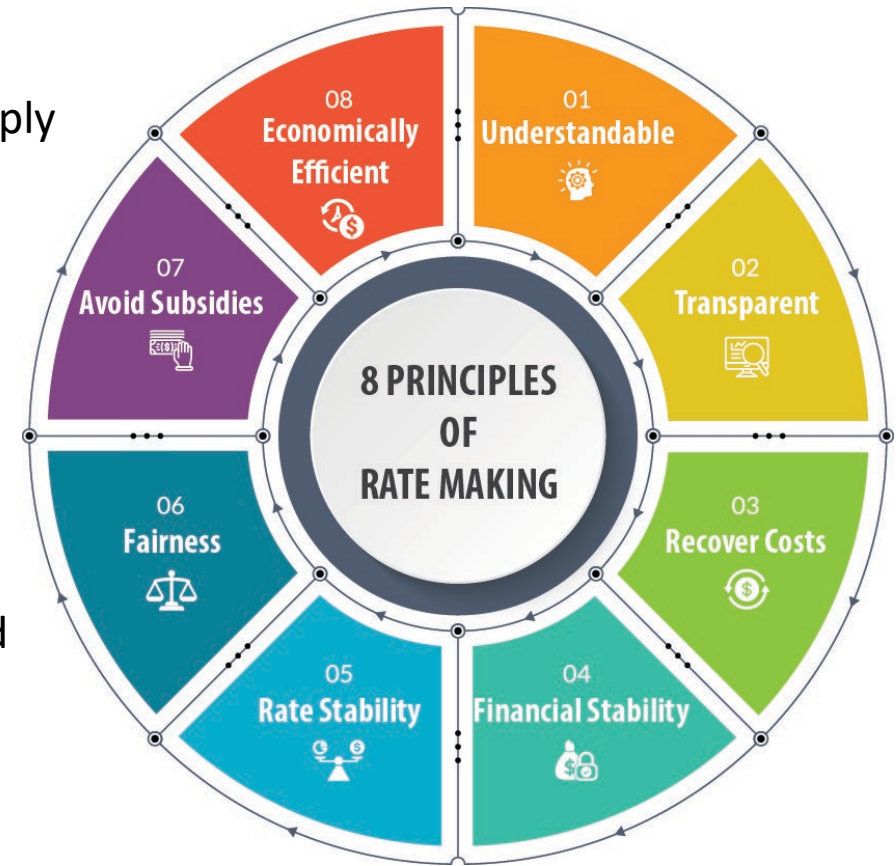
## Rates

Collect sufficient  
revenue  
Support community  
goals  
Support utility goals  
Price signal to  
customers

- Convey information
- Change behavior

# BONBRIGHT

- Bonbright's Principles of Public Utility Rates\*
  1. Practical: readily understandable, acceptable, and feasible to apply
  2. Uncontroversial as to interpretation
  3. Effective in meeting revenue requirements
  4. Stable from a revenue perspective
  5. Stable from a rate perspective
  6. Fairness among customer classes
  7. Avoidance of undue discrimination
  8. Economically efficient: discouraging wasteful use of services and promoting optimal offerings of services
- Acknowledge important role rate design plays in signaling desired behavior



\* Bonbright, "Principles of Public Utility Rates", Columbia University Press (1<sup>st</sup> ed., 1961)

# APPROACH

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- Sets rates to recover costs over the five-year period (2026–2030)
- Annual adjustments to Distribution Energy charges, Demand charges, and PCAF (Power Cost Adjustment Factor) rates to gradually move toward cost-of-service targets and minimize rate shock
- A one-time adjustment to the Power Supply base charge and Customer charge for each class is proposed in 2026
- Design of Power Supply charge to recover fixed production costs (allocated based on 12CP) allows the PCAF rates to be uniform for all customer classes (at the same voltage)

# PCAF CHANGES

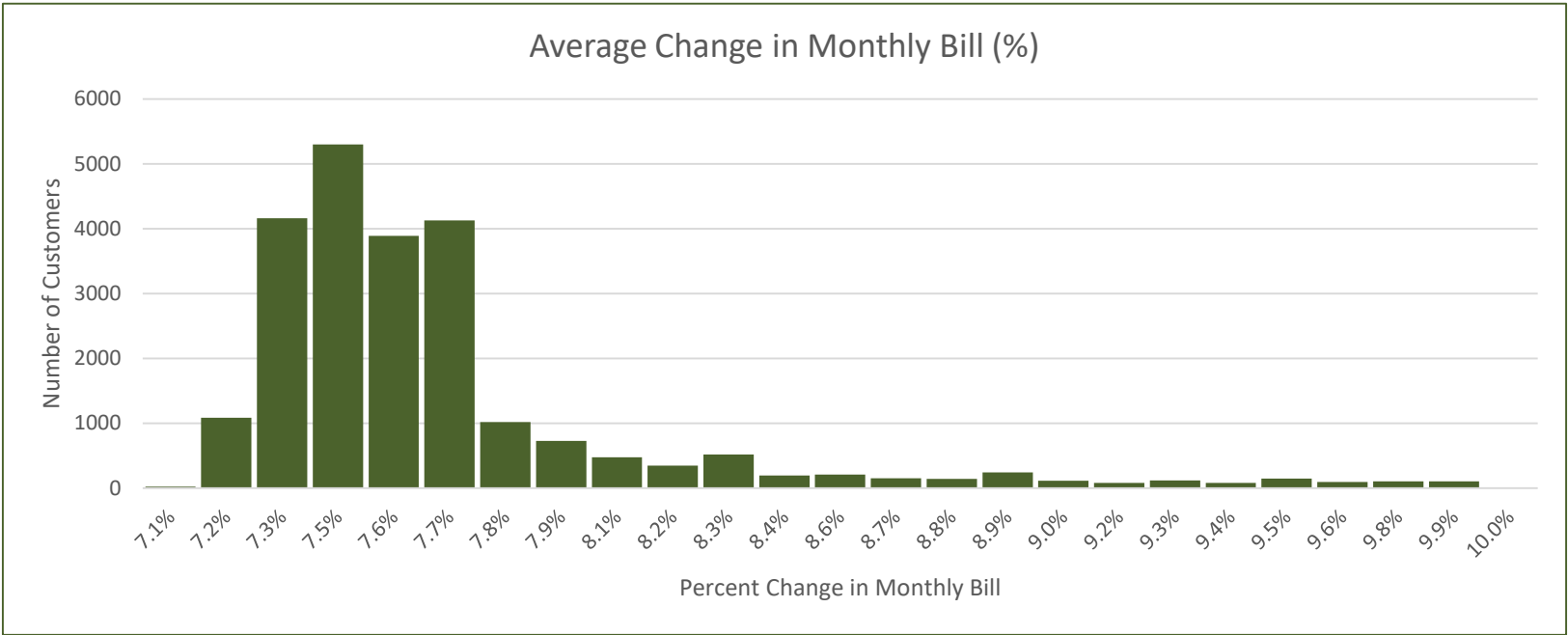
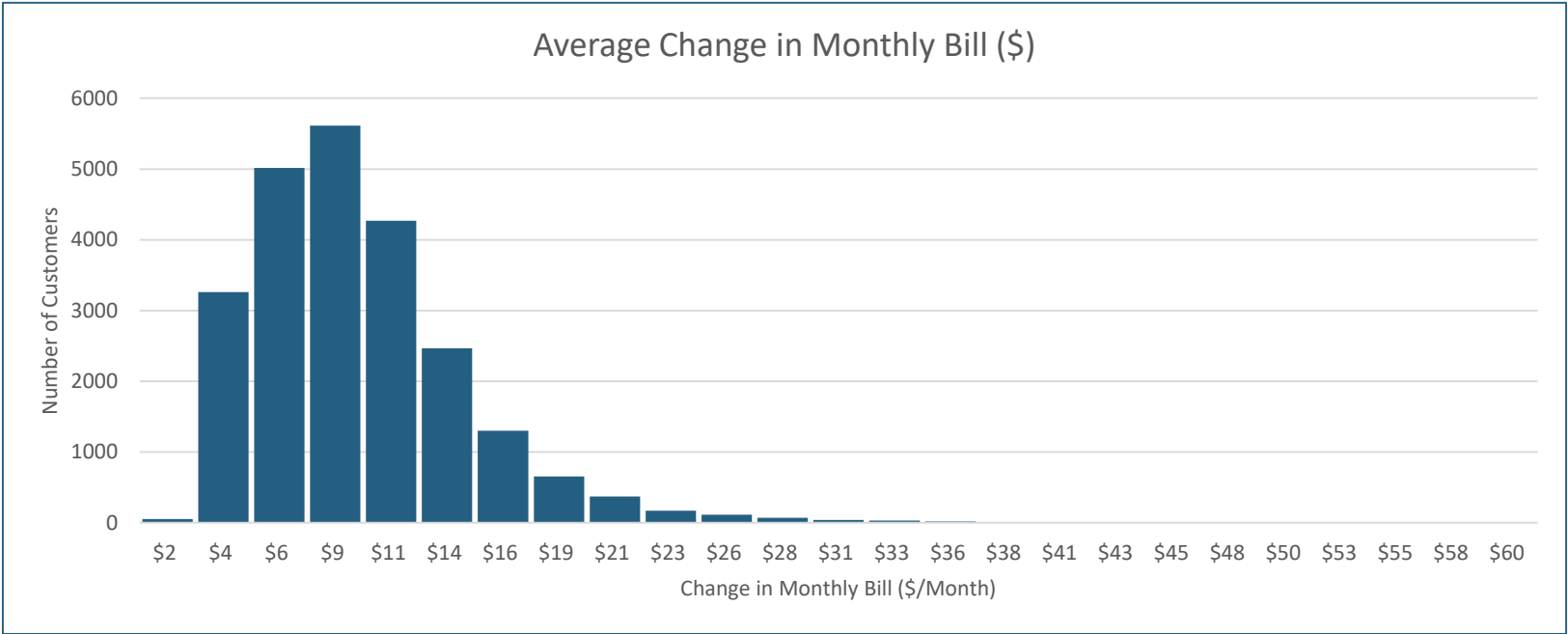
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- NewGen is proposing to transition PCAF rates to a simplified method that applies one rate for secondary voltage customers and another for primary voltage customers. This method has been adopted by utilities nationwide and is often considered the standard approach for PCAF cost recovery. Currently, KPUB has one PCAC factor which results in different rates for different customer classes.
- The proposed PCAF would be stated in terms of dollars per kWh (rather than a factor).
- The proposed PCAF method is facilitated by recovery of majority of fixed costs for Production Function in Power Supply Charge. Otherwise, a uniform PCAF for all customer classes at the same voltage might not be equitable.

# RESIDENTIAL

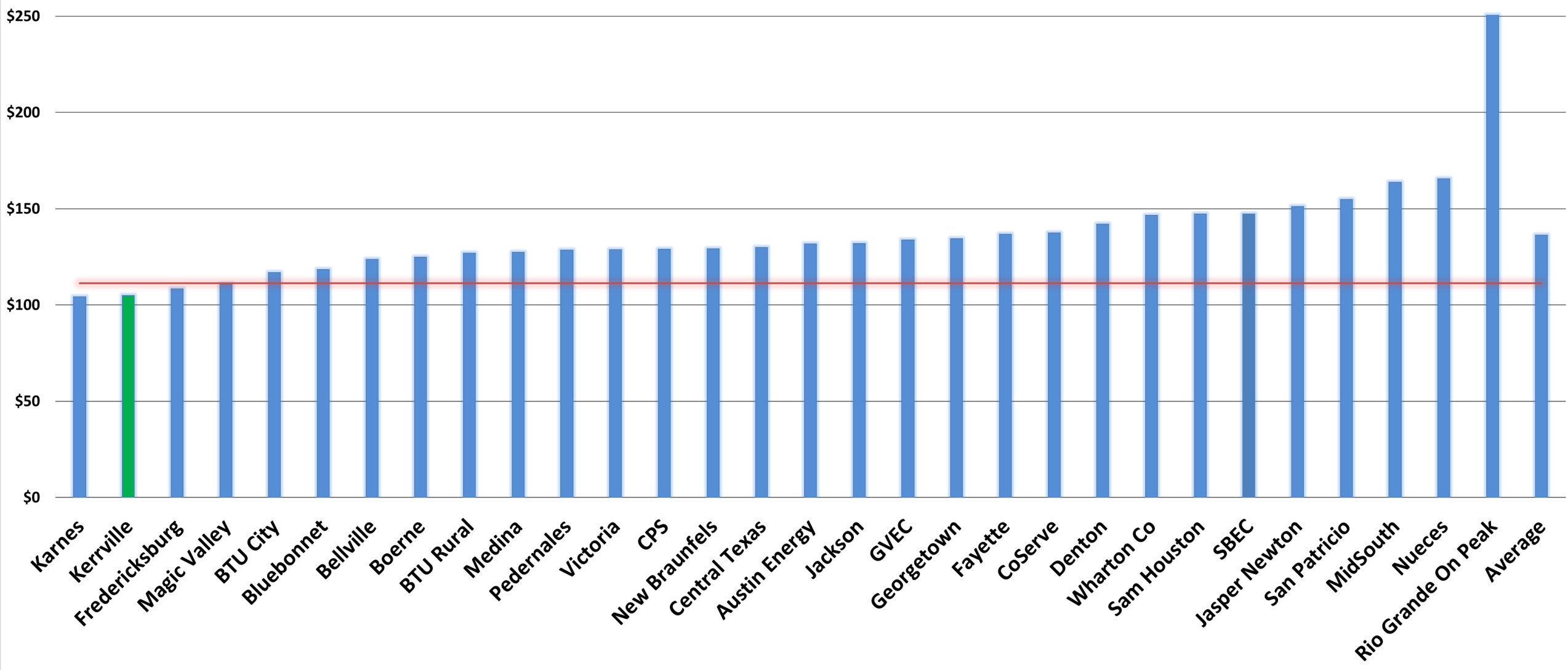
| Class                                                | Current Rates | Phase 1 2026 | Phase 2 2027 | Phase 3 2028 | Phase 4 2029 | Phase 5 2030 |
|------------------------------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Customer Charge                                      | \$15.25       | \$16.75      | \$16.75      | \$16.75      | \$16.75      | \$16.75      |
| Distribution Charge                                  |               |              |              |              |              |              |
| Energy (\$/kWh)                                      | \$0.01680     | \$0.02088    | \$0.02496    | \$0.02905    | \$0.03314    | \$0.03723    |
|                                                      |               |              |              |              |              |              |
| Power Supply Charge                                  | \$0.04060     | \$0.04543    | \$0.04543    | \$0.04543    | \$0.04543    | \$0.04543    |
| PCAF (illustrative, will vary based on actual costs) | \$0.03235     | \$0.02979    | \$0.03715    | \$0.03944    | \$0.04324    | \$0.04818    |
|                                                      |               |              |              |              |              |              |
| Monthly Bill (1,000 kWh)                             | \$105.00      | \$112.85     | \$124.29     | \$130.67     | \$138.56     | \$147.59     |
| Change from Prior Phase (%)                          |               | 7.5%         | 10.1%        | 5.1%         | 6.0%         | 6.5%         |

# RESIDENTIAL BILLING IMPACTS CURRENT TO PHASE 1

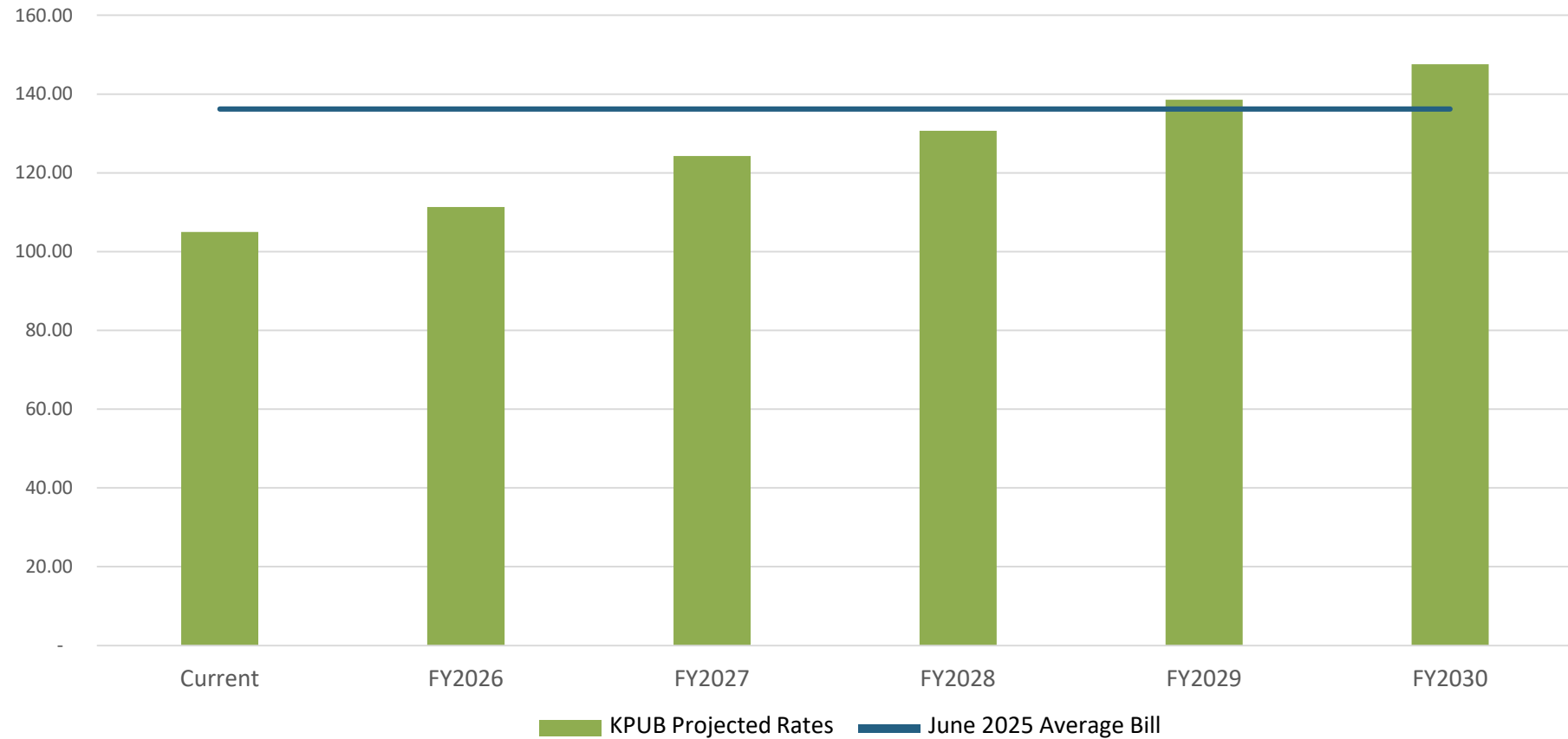


*Red line is bill for KPUB FY 2026 Proposed Rate*

1,000 kWh - June 2025



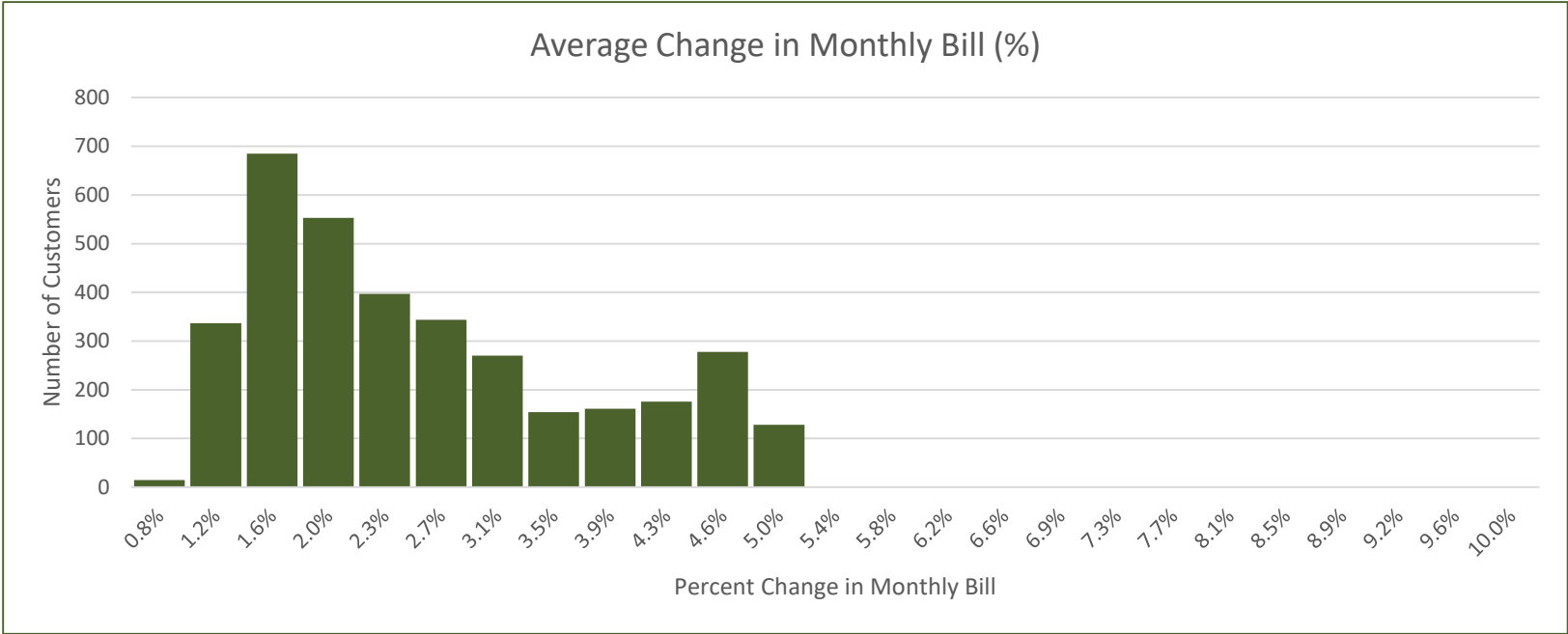
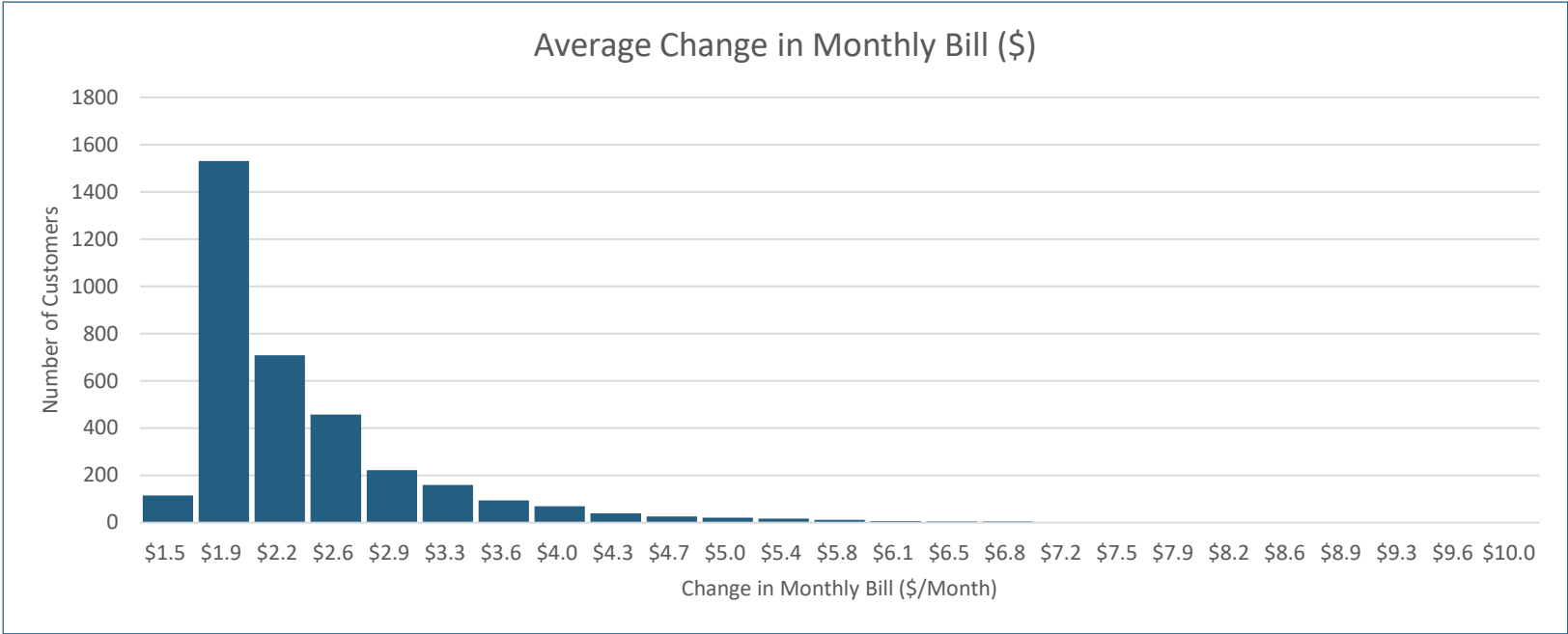
# RESIDENTIAL BENCHMARKING



# SMALL COMMERCIAL

| Class                                                | Current Rates | Phase 1 2026 | Phase 2 2027 | Phase 3 2028 | Phase 4 2029 | Phase 5 2030 |
|------------------------------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Customer Charge                                      | \$31.50       | \$33.00      | \$33.00      | \$33.00      | \$33.00      | \$33.00      |
| Distribution Charge                                  |               |              |              |              |              |              |
| Energy (\$/kWh)                                      | \$0.01873     | \$0.02112    | \$0.02351    | \$0.02590    | \$0.02829    | \$0.03068    |
|                                                      |               |              |              |              |              |              |
| Power Supply Charge                                  | \$0.04228     | \$0.04443    | \$0.04443    | \$0.04443    | \$0.04443    | \$0.04443    |
| PCAF (illustrative, will vary based on actual costs) | \$0.03369     | \$0.02979    | \$0.03715    | \$0.03944    | \$0.04324    | \$0.04818    |
|                                                      |               |              |              |              |              |              |
| Average Bill                                         | \$122.42      | \$123.63     | \$132.90     | \$137.34     | \$143.23     | \$150.20     |
| Change from Prior Phase (%)                          |               | 1.0%         | 7.5%         | 3.3%         | 4.3%         | 4.9%         |

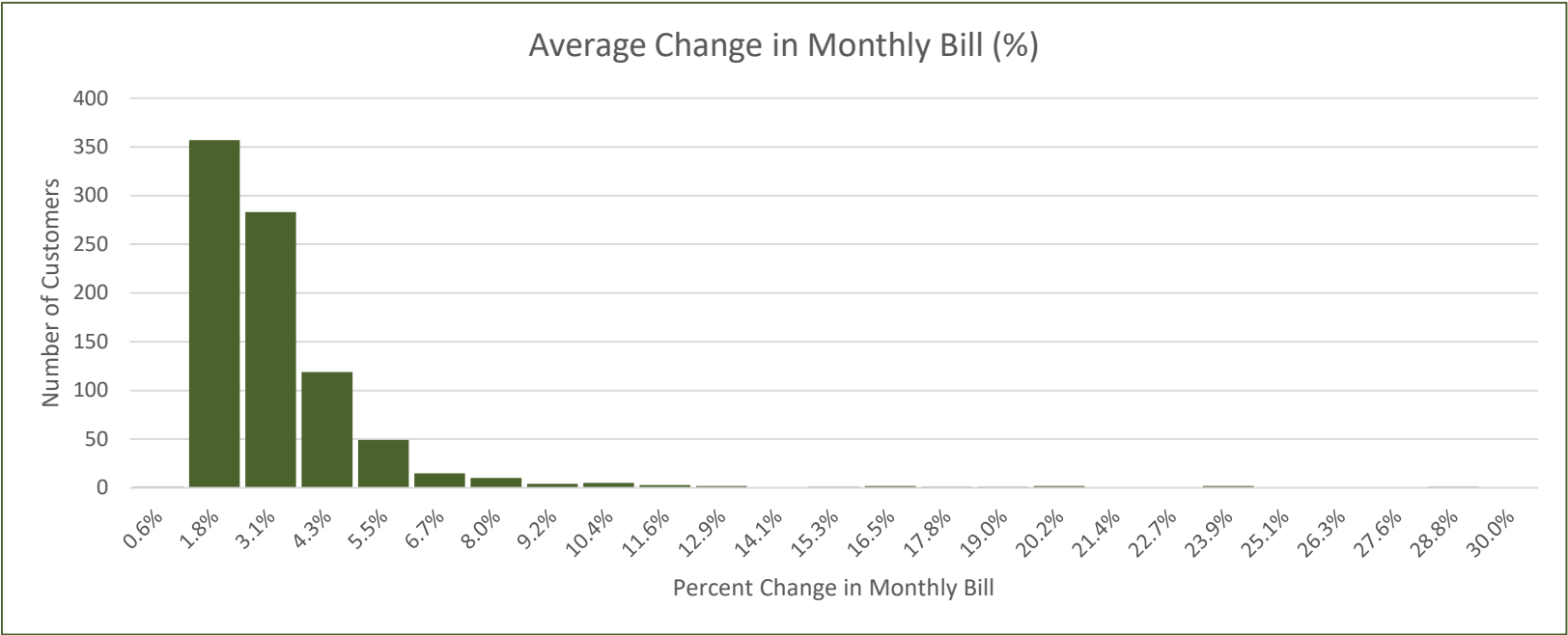
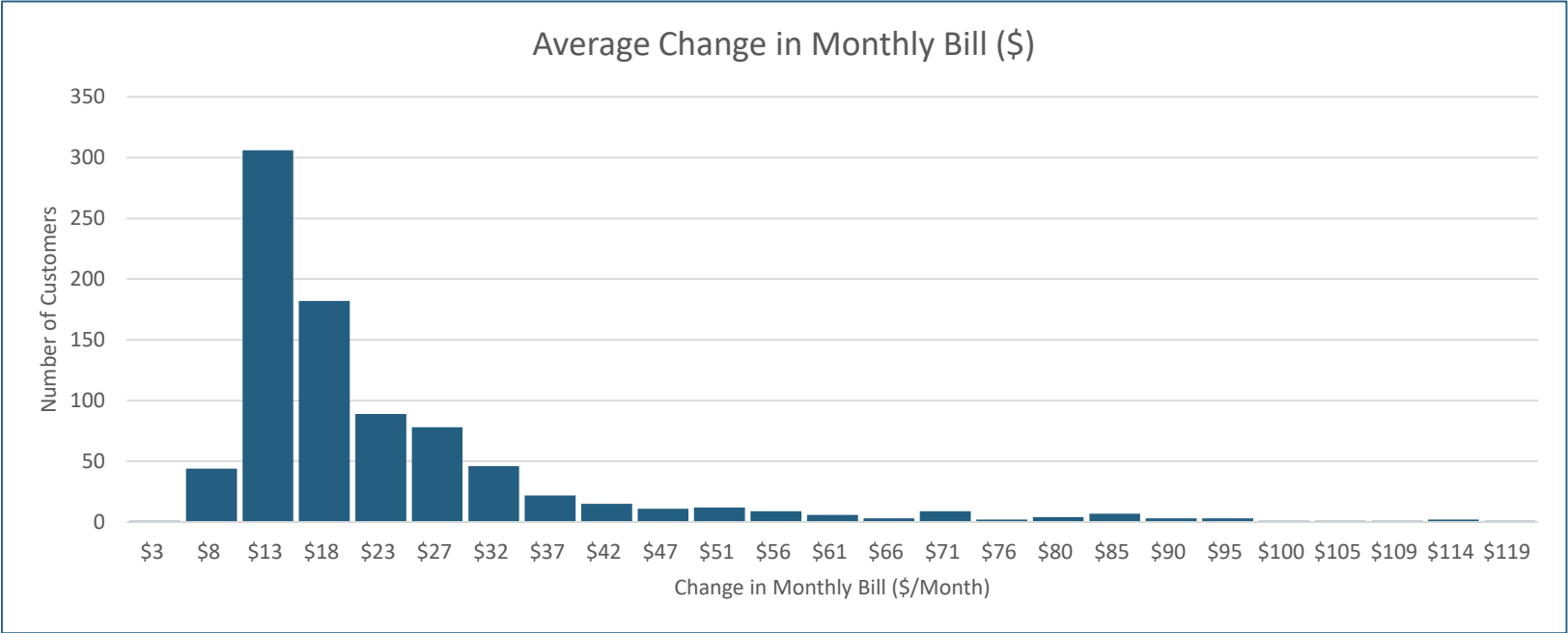
SMALL  
COMMERCIAL  
BILLING  
IMPACTS  
CURRENT TO  
PHASE 1



# MEDIUM COMMERCIAL

| Class                                                | Current Rates | Phase 1 2026 | Phase 2 2027 | Phase 3 2028 | Phase 4 2029 | Phase 5 2030 |
|------------------------------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Customer Charge                                      | \$31.50       | \$33.00      | \$33.00      | \$33.00      | \$33.00      | \$33.00      |
| Distribution Charge                                  |               |              |              |              |              |              |
| Energy (\$/kWh)                                      | \$0.01523     | \$0.01672    | \$0.01821    | \$0.01969    | \$0.02117    | \$0.02265    |
| Demand (\$/kW)                                       | \$1.00        | \$1.50       | \$2.00       | \$2.50       | \$3.00       | \$3.50       |
| Power Supply Charge                                  | \$0.04228     | \$0.04443    | \$0.04443    | \$0.04443    | \$0.04443    | \$0.04443    |
| PCAF (illustrative, will vary based on actual costs) | \$0.03369     | \$0.02979    | \$0.03715    | \$0.03944    | \$0.04324    | \$0.04818    |
|                                                      |               |              |              |              |              |              |
| Average Bill                                         | \$1,123.34    | \$1,132.76   | \$1,254.85   | \$1,319.07   | \$1,400.50   | \$1,494.90   |
| Change from Prior Phase (%)                          |               | 0.8%         | 10.8%        | 5.1%         | 6.2%         | 6.7%         |

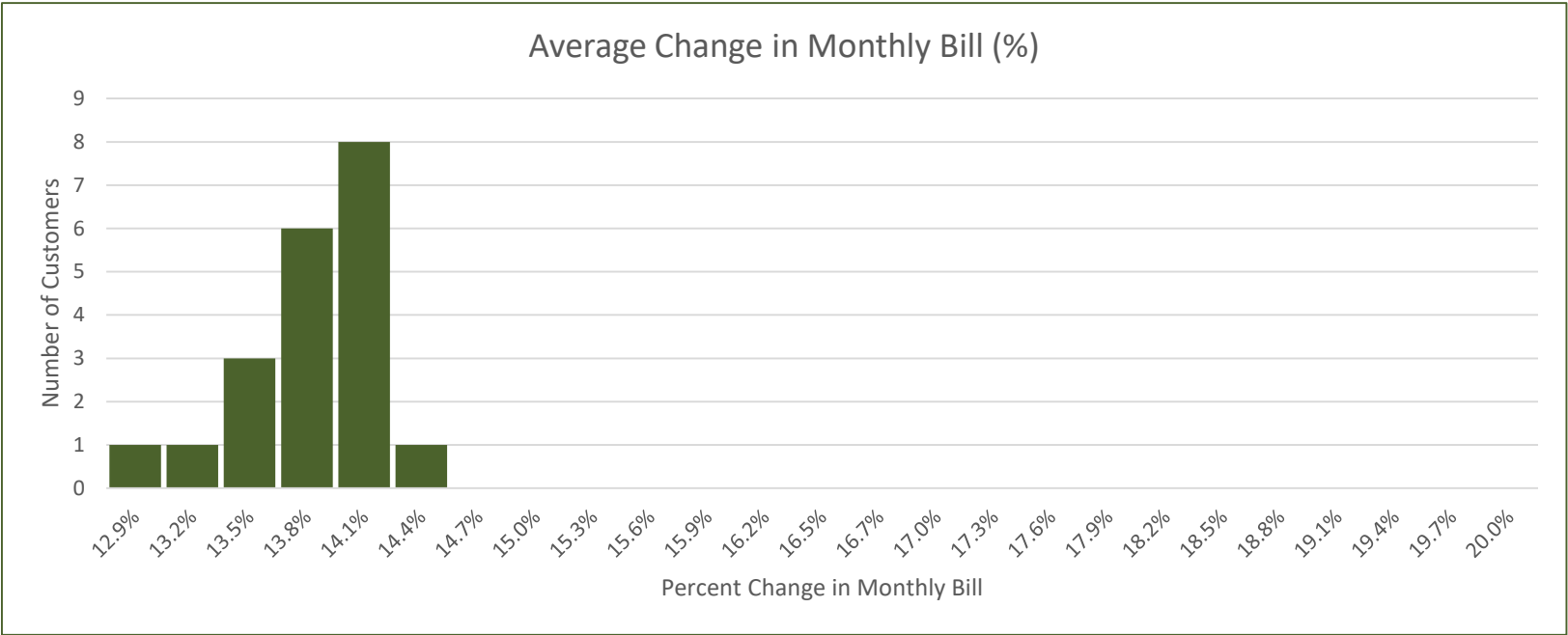
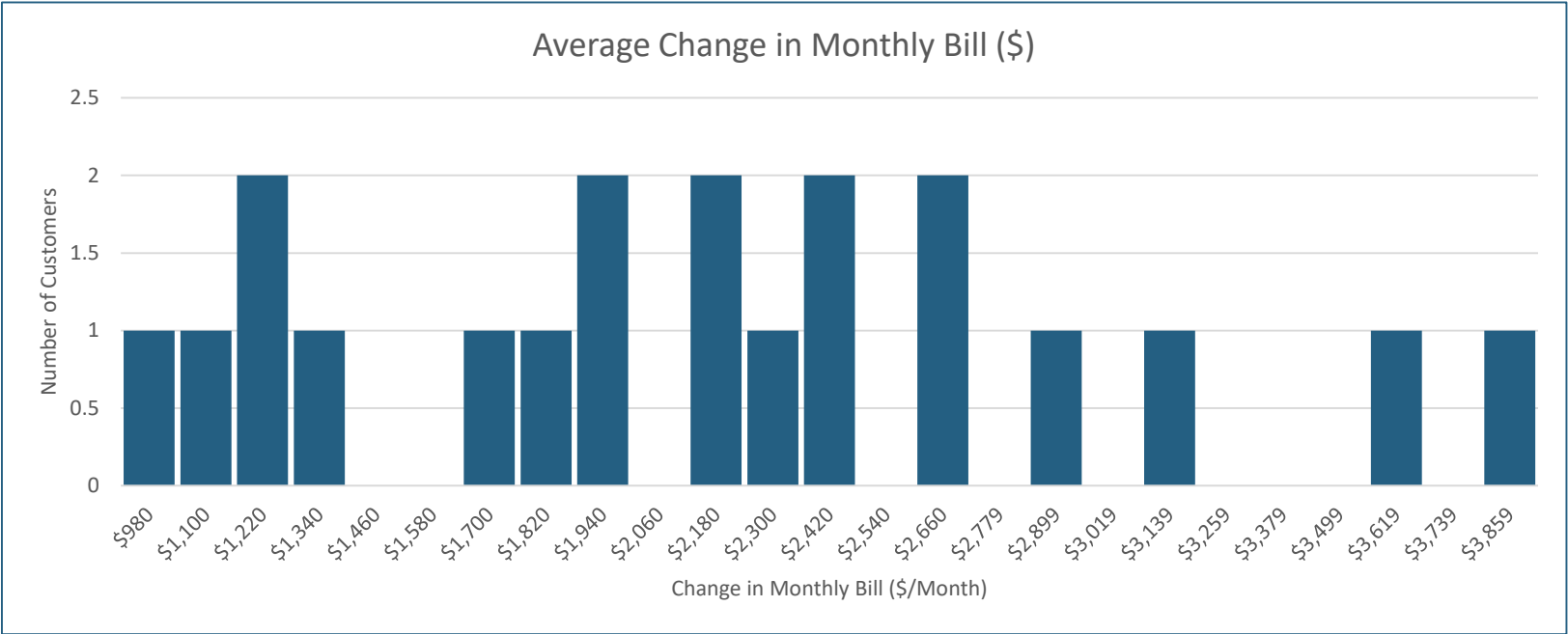
MEDIUM  
COMMERCIAL  
BILLING  
IMPACTS  
CURRENT TO  
PHASE 1



# LARGE COMMERCIAL - SECONDARY VOLTAGE

| Class                                                | Current Rates | Phase 1 2026 | Phase 2 2027 | Phase 3 2028 | Phase 4 2029 | Phase 5 2030 |
|------------------------------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Customer Charge                                      | \$230.00      | \$275.00     | \$275.00     | \$275.00     | \$275.00     | \$275.00     |
| Distribution Charge                                  |               |              |              |              |              |              |
| Energy (\$/kWh)                                      | \$0.00220     | \$0.00580    | \$0.00940    | \$0.01300    | \$0.01660    | \$0.02020    |
| Demand (\$/kW)                                       | \$7.50        | \$8.00       | \$8.50       | \$9.00       | \$9.50       | \$10.00      |
| Power Supply Charge                                  | \$0.03351     | \$0.03643    | \$0.03643    | \$0.03643    | \$0.03643    | \$0.03643    |
| PCAF (illustrative, will vary based on actual costs) | \$0.02670     | \$0.02979    | \$0.03715    | \$0.03944    | \$0.04324    | \$0.04818    |
|                                                      |               |              |              |              |              |              |
| Average Bill                                         | \$15,800.47   | \$17,797.97  | \$20,127.85  | \$21,488.52  | \$23,137.85  | \$25,005.10  |
| Change from Prior Phase (%)                          |               | 12.6%        | 13.1%        | 6.8%         | 7.7%         | 8.1%         |

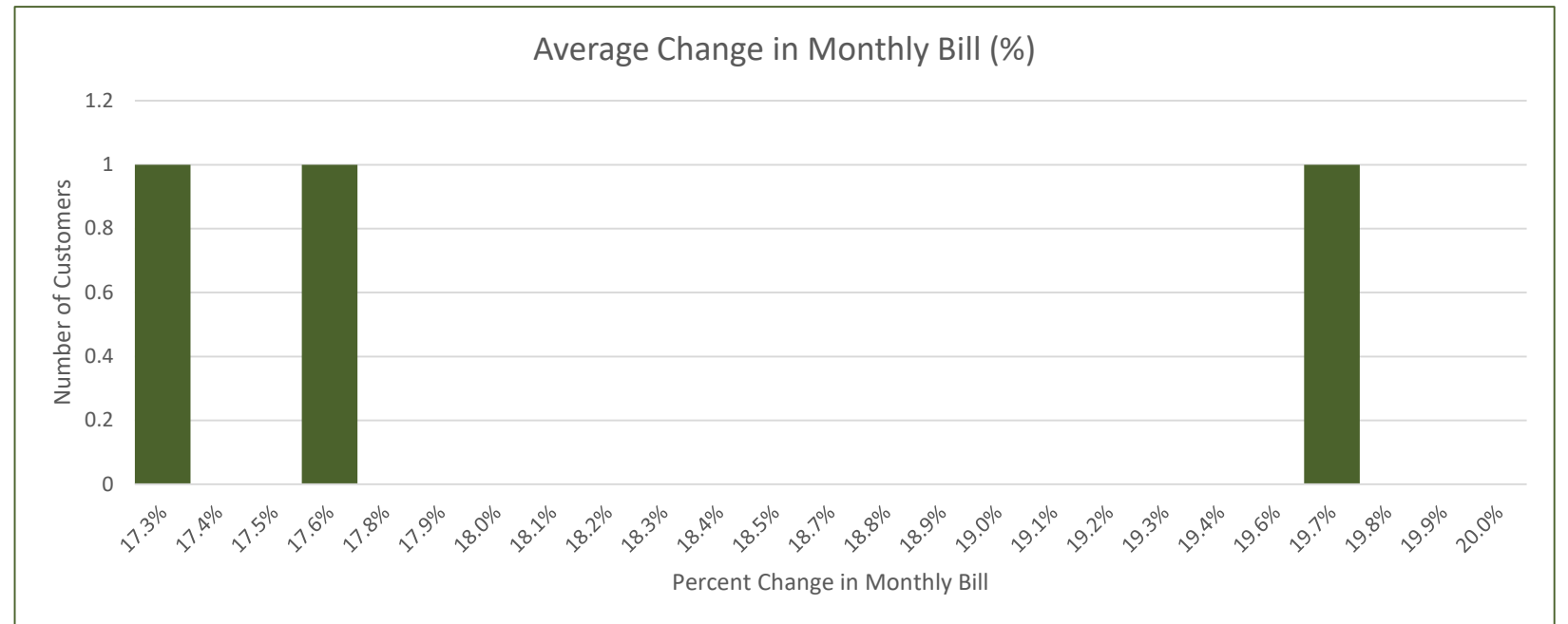
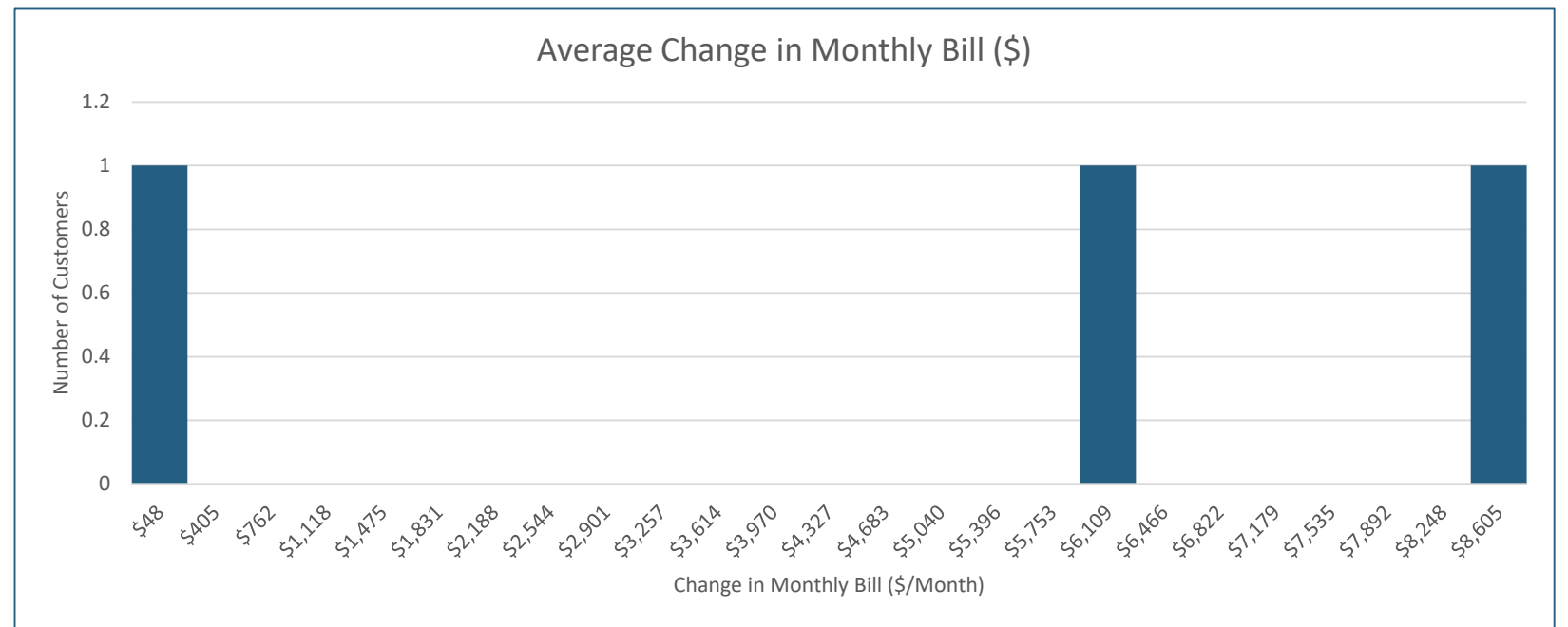
LARGE  
COMMERCIAL  
- SECONDARY  
VOLTAGE  
BILLING  
IMPACTS  
CURRENT TO  
PHASE 1



# LARGE COMMERCIAL - PRIMARY VOLTAGE

| Class                                                | Current Rates | Phase 1 2026 | Phase 2 2027 | Phase 3 2028 | Phase 4 2029 | Phase 5 2030 |
|------------------------------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|
| Customer Charge                                      | \$230.00      | \$275.00     | \$275.00     | \$275.00     | \$275.00     | \$275.00     |
| Distribution Charge                                  |               |              |              |              |              |              |
| Energy (\$/kWh)                                      | \$0.00287     | \$0.00501    | \$0.00715    | \$0.00929    | \$0.01143    | \$0.01357    |
| Demand (\$/kW)                                       | \$7.50        | \$8.00       | \$8.50       | \$9.00       | \$9.50       | \$10.00      |
| Power Supply Charge                                  | \$0.03030     | \$0.03493    | \$0.03493    | \$0.03493    | \$0.03493    | \$0.03493    |
| PCAF (illustrative, will vary based on actual costs) | \$0.02414     | \$0.02892    | \$0.03606    | \$0.03829    | \$0.04198    | \$0.04677    |
|                                                      |               |              |              |              |              |              |
| Average Bill                                         | \$27,404.05   | \$31,915.99  | \$35,749.91  | \$37,752.19  | \$40,299.11  | \$43,256.37  |
| Change from Prior Phase (%)                          |               | 16.5%        | 12.0%        | 5.6%         | 6.7%         | 7.3%         |

# LARGE COMMERCIAL - PRIMARY VOLTAGE BILLING IMPACTS CURRENT TO PHASE 1





# CONCLUSIONS & RECOMMENDATIONS

# CONCLUSIONS

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- The study confirms that current rates are insufficient to meet the forecasted revenue requirement
- Equity and fairness considerations suggest moving toward cost-based rates while minimizing customer impacts
- New Medium Commercial rate class is proposed to improve cost recovery for customers exceeding 25 kW (but not large enough for the Large Commercial class)
- Overall, the proposed changes will improve revenue adequacy, fairness, and long-term financial stability for KPUB

## RECOMMENDATIONS

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- Approve the proposed five-year rate strategy to ensure financial stability
- Adopt the proposed PCAF rate structure that is uniform for all customers served at the same voltage
- Implement the new Medium Commercial rate class to better align rates with cost of service
- Phase in rate changes gradually to minimize customer impacts and avoid rate shock
- Continue monitoring financial performance and schedule future rate reviews every 3 to 5 years



Grant Rabon  
Partner  
(512) 900-8232  
[grabon@newgenstrategies.net](mailto:grabon@newgenstrategies.net)

# QUESTIONS?

