2024-749A

Residential Electric Tier Structure

December 11 2024

GRU℠
More than Energy

Executive Summary

- GRU is proposing to change the residential electric tier structure effective January 1, 2025

- 1,000 kWh per month is the standard billing benchmark for municipal utilities

- Currently GRU's residential electric rate structure has two tiers
  - Tier 1: from 1 – 850 kWh per month is priced at $0.0846/kWh
  - Tier 2: > 850 kWh per month is priced at $0.1121/kWh

- The proposed structure moves the billing break point between the 1st and 2nd tiers from 850 kWh to 1,000 kWh
  - The current first tier price of $0.0846/kWh is held at its current level
  - The second tier is priced so that overall GRU is revenue neutral – an increase from $0.1121/kWh to $0.1213/kWh

	CURRENT		PROPOSED	
	Break Point	**Price**	**Break Point**	**Price**
Tier 1	**1 - 850 kWh**	**$0.0846/kWh**	**1 - 1,000 kWh**	**$0.0846/kWh**
Tier 2	**> 850 kWh**	**$0.1121/kWh**	**> 1,000 kWh**	**$0.1213/kWh**

Residential Electric Tier Change

- Notable effects of the change are:
  - GRU's 1,000 kWh bill compare will improve by $4.13 per month
  - Bill amounts for consumption from 1 – 850 kWh per month will remain unchanged
  - Bill amounts for consumption from 851 kWh to ~ 1,450 will be slightly lower
  - Bill amounts for consumption above ~1,450 kWh per month will be higher

- Using consumption information on 89,363 customer accounts from FY23, assuming no behavioral change, over the course of 12 months
  - 59% of customer accounts would pay less – the average reduction is $2.23
  - 24% of customer accounts will pay the same, and
  - 17% of customer accounts will pay more – the average increase is $5.52

- The customer charge will remain at $17.00/month and the fuel adjustment is unaffected

Residential Electric Tier Change

IMPACT OF PROPOSED TIER CHANGE			
Monthly Consumption (kWh)	Reduction in Monthly Bill	Monthly Consumption (kWh)	Increase in Monthly bill
900	(1.38)	1,500	0.47
950	(2.75)	1,600	1.39
1,000	(4.13)	1,700	2.31
1,050	(3.66)	1,800	3.23
1,100	(3.27)	1,900	4.15
1,150	(2.74)	2,000	5.07
1,200	(2.29)	2,500	9.67
1,300	(1.37)	3,000	14.27
1,400	(0.45)	4,000	23.49
		5,000	32.67

Residential Electric Tier Change

Recommendation
The GRU Authority adopt the proposed resolution which provides that effective January 1, 2025 the GRU Authority change GRU's residential electric tier rate structure:

From: Tier 1 1- 850 kWh at a price of $0.0846/kWh
Tier 2 > 850 kWh at a price of $0.1121/kWh

To: Tier 1 1 – 1,000 kWh at a price of $0.0846/kWh
Tier 2 > 1,000 kWh at a price of $0.1213/kWh

	CURRENT		PROPOSED	
	Break Point	**Price**	**Break Point**	**Price**
Tier 1	**1 - 850 kWh**	**$0.0846/kWh**	**1 - 1,000 kWh**	**$0.0846/kWh**
Tier 2	**> 850 kWh**	**$0.1121/kWh**	**> 1,000 kWh**	**$0.1213/kWh**

Appendix

GRU℠
More than Energy

Basic Rate Design

- Rate structures commonly consist of a combination of fixed and variable charges
- The objective is to construct an algorithm such that the revenue requirement is met
- The portion of revenue collected from various rate components is generally guided by cost of service studies, but ultimately there is an element of subjectivity involved
- A higher fixed monthly customer charge will translate to a lower variable usage-based charge and vice-versa

Basic Rate Design

What is a Tiered Rate Structure?

- Usage (consumption) at different levels is priced differently
- More generically known as Blocked Pricing
  - Declining block – less expensive when more is consumed, or
  - Inclining block – more expensive when more is consumed
- Commonly used with electric and water rate structures
  - Most commonly used with residential rate structures
- Historically, the goal was typically to encourage conservation and align revenues with variable costs

Basic Rate Design

Pros and Cons of Tiered Rate Structures

PROS	CONS
Encourages efficient utilization of resources	Harder for customers to understand
Collects revenue in proportion to factors impacting costs	Can be impacted by billing cycle
Viewed favorably by rating agencies	Assumes customer profile aligns with rate structure, creating more potential for winners and losers
Common industry practice	Can impact bill comparisons
	Revenue stream more variable

Basic Rate Design

History of Tier Billing Break Points

RESIDENTIAL ELECTRIC RATE STRUCTURE			
Fiscal Year	Tier 1 kWh per Month	Tier 2 kWh per Month	Tier 3 kWh per Month
1980 - 2006	1 - 750	751 +	
2007 - 2015	1 - 250	251- 750	751 +
2016 - present	1 - 850	851 +	