



# O-18-26: Executive Summary

The North Little Rock Electric Department (“NLRED”) requests restructuring of electric rates. A proper rate structure should reflect sound departmental objectives:

- Fairly apportion costs among customers
- Encourage conservation
- Provide sustainable revenue
- Avoid debt

Rate structures were last examined in 2006. Since then, many changes have occurred that affect our rate structure. NLRED hired Utility Financial Solutions (“UFS”) to analyze our cost of service and rate structure, and ensure we were meeting our objectives. After receiving the data from that study, NLRED believes that we aren’t meeting our objectives and request the following changes:

- 1. Increase monthly customer charge.** Each month, customers are billed a fixed customer charge, in addition to a variable energy consumption charge. The study found that NLRED is currently recovering fixed costs through variable charges for energy consumption, which are declining. As this trend continues, NLRED will lack sustainable revenue for operations. NLRED requests increases to the monthly customer charge over three years. For an average bill, the increase will be offset by a decrease in the energy charge. However, at lower consumption levels, an increase in the monthly customer charge will increase the total bill.
- 2. Eliminate declining block rates.** NLRED currently discounts the price for electricity as consumption increases. This discount is inconsistent with encouraging conservation. NLRED requests elimination of declining block rates over three years. Elimination of declining block rates will cause customer bills to increase at higher consumption levels.
- 3. Properly allocate costs among rate classes.** The study found that two rate classes were paying significantly less than their share of costs: *small general service* and *residential hot water*. This demonstrates that current rates do not fairly apportion costs among customers. NLRED requests: (1) increases to the small general service rate over three years, and (2) elimination of the residential hot water rate over three years.
- 4. Approve resulting increase in revenue.** The study found that NLRED has insufficient revenue to fully fund planned expenses and depreciation over the next five years. Without changes, NLRED will have insufficient cash reserves to fund capital expenditures needed to maintain system reliability. The changes requested above will provide sufficient revenue to perform work without issuance of debt. NLRED requests to preserve the revenue gained by these changes for departmental needs.
- 5. Change the power cost adjustment calculation.** UFS assisted NLRED in the development of a calculation method to replace the current ECR that will be easier and require less estimation. NLRED requests implementation of this calculation method.

*Proposed changes to residential bills by year.*

Usage (kWh)	Year 1	Year 2	Year 3
500	+ \$1.49	+ \$1.15	+ \$2.50
700	+ 0.49	+ 0.32	+ 2.21
900	- \$0.52	- \$0.51	+ \$1.93
<b>1000</b>	<b>- \$1.02</b>	<b>- \$0.93</b>	<b>+ \$1.78</b>
1100	+ \$0.17	+ \$0.40	+ \$1.64
1300	+ \$2.55	+ \$3.06	+ \$1.35
1500	+ \$4.92	+ \$5.71	+ \$1.06
1700	+ \$7.29	+ \$8.37	+ \$0.77