

# FOR BOARD ACTION

Agenda Item # 8

Meeting Date:

10/27/09

**SUBJECT:**

Electric Utility Cost-of-Service and Rate Study

**PREPARED BY:**

Bryan Blom, Manager of Finance & Accounting

ITEM DESCRIPTION:

The Board Policy Statement regarding utility rates states "Rates and charges will be based upon generally accepted industry principles to reflect an equitable distribution of costs to customers" or, in other words, rates will be based on the costs to serve specific classes of customers. To evaluate the equitable distribution of costs and their collection through utility rates, most utilities periodically conduct cost-of-service/rate studies. A cost-of-service study is the process of reasonably determining the cost of providing services to classes of customers that have similar characteristics. The rate study that follows uses the cost-of-service study results to design rate structures such as a combination of customer charges, energy charges, and demand charges and the associated rates for each component of the rate structure so that the revenues collected closely meet the cost of providing service to each customer class.

RPU's last cost-of-service/rate study was completed in 2003. Numerous changes have occurred since then such as RPU's increased participation in the wholesale market for needs above the SMMPA CROD, the State's requirement of more aggressive conservation goals, and the installation of the emissions reduction equipment at Silver Lake Plant. In order to ensure that the Board Policy on cost-of-service based rates is being maintained we believe a cost of service/rate study should be done at this time.

We sought proposals from consulting firms who specialize in these studies. Four firms responded to our request for proposal.

FOR CAPITAL PURCHASES/BIDS/MAJOR PROJECTS:

The Electric Utility Cost-of-Service and Rate Study is a professional service contract and funds are budgeted for it.

UTILITY BOARD ACTION REQUESTED:

Staff recommends that the Board accept the proposal from Utility Financial Solutions of Holland, Michigan, to perform an electric utility cost-of-service and rate study in the amount of \$72,230

*Larry Koshire*  
General Manager *Kaw*

*10-22-09*  
Date



## RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a professional services agreement with Utility Financial Solutions of Holland, Michigan for an

Electric Utility Cost-of-Service and Rate Study

The amount of the agreement to be SEVENTY-TWO THOUSAND TWO HUNDRED AND THIRTY AND 00/100 DOLLARS (\$72,230.00).

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 27<sup>th</sup> day of October, 2009.

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President

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Secretary