Commonwealth Utilities Corporation

Incentive Rate Overview

CPUC Briefing

May 2014

Presentation Format

- Overview of Electric Utility Incentive Rates
- CUC Load History
- CUC Generation Capacity

economists.com

Incentive Rate Overview

- Two types of electric utility incentive rates: **attract** & **keep**
- Incentive rates to **attract** new load referred to as Economic Development Rates
- Incentive rates to **keep** existing customers from leaving are referred to as Load Retention Rates
- At least 25 US Mainland electric utilities offer some form of Incentive Rate

economists.com

Incentive Rate Overview

- Incentive rate generally some type of discount from standard rate
- Electric utilities traditionally are strong supporters of economic growth and development in their service territory
  - New factory or plant will lead to multiplier effects in electric use due to increased employment and growth from other businesses
- Often intense completion between states and electric utilities for new customers

Incentive Rate Overview
Benefits of Incentive Rates

- Benefits to utilities are increased sales from new customers and increased sales from existing customers as long as additional capacity is not required
- Benefits to community are increased employment and other direct, indirect and induced economic effects
- Benefits to government are above items and increased tax revenue

Incentive Rate Overview

- Incentive rates very common until the mid 1990's when US Mainland electric utilities during economic boom and start of deregulation
- Increasingly popular now due to recent recession and slow economic growth
- Move toward flat rates from declining block rates for large industrial customers
- Numerous supportive decisions by regulators

Incentive Rate Overview

US Mainland Electric Utilities with Incentive Rates

- Alabama Power
- Appalachian Power
- Baltimore Gas & Electric
- Duke Energy – Indiana
- Duke Energy – Florida
- El Paso Electric
- Entergy - Louisiana
- Entergy –Louisiana
- Kentucky Utilities
- City of Lompoc, CA
- Louisville G&E
- No. Indiana PSC
- Santee Cooper, SC
- City of Springfield, MO
- TVA

Incentive Rate Principles

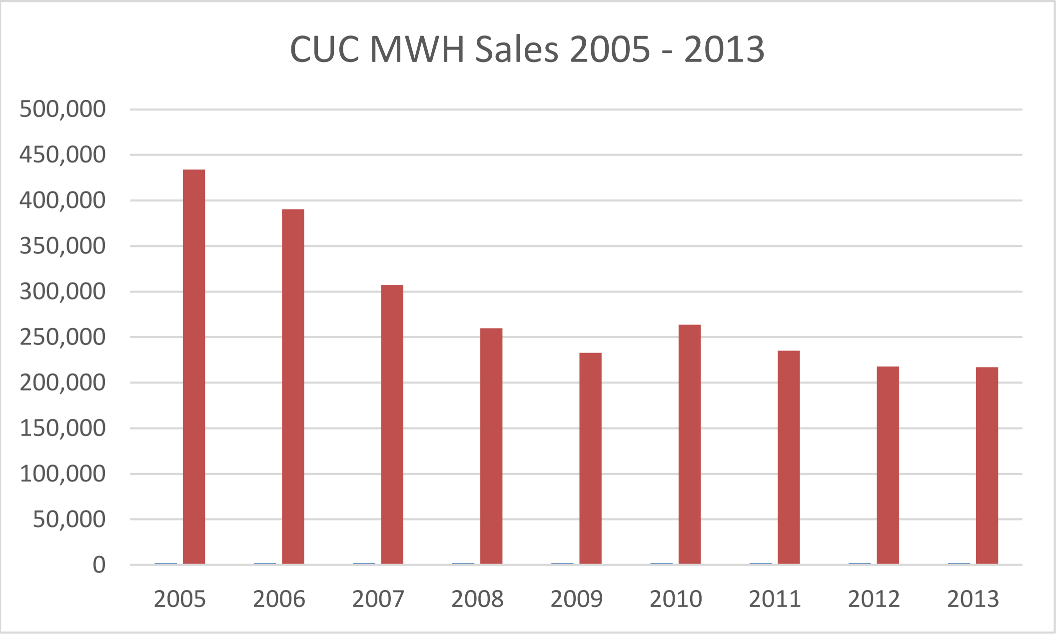
- Other customers are not worse off
- The new load would not occur without incentive rate or existing load likely to leave
- Duration of incentive rate should be limited
- Cap on amount of load eligible for discount
- Results in a net increase in electric utility revenue

Incentive Rate Utility Requirements

- Electric utility must demonstrate the following:
  - Other customers are not harmed
  - Revenues exceed the marginal cost of serving new load
  - Benefits to the rest of the system
  - Enough excess capacity exists to serve increased load
- Utility should also file annual reports with regulatory body showing results of incentive rate

CUC Usage History

- CUC kWh sales fell 50% since 2005



- Began with the loss of garment industry, followed by JAL pullout, recession, Japanese earthquake & loss of large commercial load

economists.com

CUC Usage History

- CUC has substantial amount of excess generation capacity on Saipan - location of most self-generating customers –
- Saipan Generation Capacity – 79 MW
- Saipan Peak Load - 35 MW
- Reserve Margin - 125%
- Est. Peak Load of IR Customers 7 MW
- Reserve Margin with IR Load 88%

Incentive Rate

- CNMI could see construction of at least 8 new hotels in next 3-4 years which could consume over 75,000 -100,000 MWH annually

- Need additional staff to work at the hotels

- With increased tourism - new businesses, restaurants, staff housing, etc. Will lead to increased electric usage.

Incentive Rate Summary

- CUC must develop workable and competitive incentive rate to attract existing large-self-generating customers
- CUC must develop workable and competitive incentive rate to ensure that new hotels & other large commercial customers connect to CUC
- CUC must develop permanent workable and competitive large commercial rate to ensure that CUC **keeps** the new hotels & other large commercial customers connect to CUC