Commonwealth Utilities Corporation

Incentive Rate Overview

CPUC Briefing

May 2014
Presentation Format

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