



Minutes for March 3, 2022

Members attending the meeting:

Christina Bouler, Mark Campen, Tiki Dixon, Erin Gill, Tim Hill, Barbara Kelly, Terry Ledford, Haseeb Qureshi, Amy Midis, Kent Minault, David Myers, Mike Odom, Vivian Shipe, Stephen Smith

Others in attendance:

Facilitator: Dr. Bill Lyons

KUB Staff: Gabriel Bolas, Mike Bolin, Jamie Davis, Susan Edwards, Derwin Hagood, Elba Marshall, Tiffany Martin, Mark Walker, John Williams

KUB Board members: Kathy Hamilton, Celeste Herbert

Other attendees: Maggie Shober, SACE

Old Business

None

New Business

The Community Advisory Panel met at 3:00 p.m. on March 3, 2022 at KUB's Mintha Roach Corporate Services and Training Center.

Dr. Lyons welcomed the panel members and KUB Board members in attendance. He shared KUB Board Chair Jerry Askew asked that he let the panel know he had hoped to attend but was not able due to a minor health procedure.

Dr. Lyons asked if anyone had corrections to the meeting minutes from last month's meeting. There were no corrections.

Dr. Lyons explained the agenda for this meeting was to continue discussion about rates, with Dr. Stephen Smith presenting information about alternative rate designs. He explained after the presentation, the panel would have the opportunity to discuss what they would like to discuss in their next meeting. Kent Minault indicated he would like to make a presentation on rates.

Stephen Smith shared that his thoughts and prayers are with the people of Ukraine. Dr. Smith started his presentation and introduced Maggie Shober of the Southern Alliance for Clean Energy (SACE) who would be assisting him.

Dr. Smith explained SACE is not advocating for anything that interferes with KUB's ability to recover costs. He stated SACE disagrees with the approach for cost recovery and feels all decisions should be made in a transparent way. He stated SACE believes higher fixed fees are regressive and disproportionately harm lower income individuals. He said SACE has taken some of the slides KUB presented and "deconstructed" them. He said SACE feels the greenest and most equitable electron is the one never used, and if the system can be most efficient, there is no downside for the environment or humans. He indicated KUB can do only part of this and part of the issues stem from the Tennessee Valley Authority, which he referred to as a self-regulated monopoly.

Ms. Shober shared an overview of principles for fair reform of residential rate structure developed by SACE and 5 Lakes Energy, a consultant SACE collaborated with to develop these principles. The principles included fair cost allocation, transparency of utility practices, simplicity of rates, gradualism, fair valuation of distributed energy resources, and special purpose rates. Ms. Shober explained these principles can conflict with each other.

Ms. Shober then shared best practices for rate setting. She noted rates should be based on costs which should be identified through a cost of service study. She then described two different methods for cost of service studies: the basic customer method and minimum system method. She noted outside of the TVA service area, cost of service study results are taken to a public service commission where public comment may be made and advocates may present evidence for requesting utility rate changes. Ms. Shober explained the minimum system method includes a minimum system used to distribute a minimum amount of energy to each customer, which she indicated is an issue because the results are very sensitive to assumptions, such as KUB using a minimum of 1 kilowatt of energy. She indicated it is arbitrary to use this amount for a minimum.

Erin Gill asked for clarification about the amount of change that occurs in a cost of service study when a different amount of kilowatt hours is used as the assumption. Since bills are based on kilowatt hours in whole numbers, she asked what happens, for example, if it is based on a minimum of 50 kilowatt hours. Ms. Shober said she is not sure because she has not seen that done. Ms. Gill noted it seems that the basic cost per customer would only increase if a different number was used, such as if KUB had based the study on a minimum of 50 kilowatt hours.

Ms. Shober noted that Dr. Smith has an extensive history of intervening in utility rate cases where the minimum system method has been used. She said the public service commissions are in place to advocate for the consumers. Dr. Smith noted consumers in the TVA area do not have this level of protection.

Erin Gill noted that the other municipal utilities listed as examples for comparison in SACE's presentation are also exempt from regulation by public service commissions. Dr. Smith acknowledged this is accurate, but he feels there are more transparent discussions in areas outside the Tennessee Valley. Ms. Shober noted in some areas, the boards of the municipal utilities are overseen by city councils. Erin Gill expressed she feels the rate making process in the Tennessee Valley is not drastically different than it is for other

municipal utilities, and she noted the officials who serve on the public service commissions are elected or appointed officials who are not experts in utility rate design and therefore must rely on the information provided by the utility or by advocates. Ms. Gill noted she would not want someone to leave this meeting feeling like Knoxville is unique and not like other peer areas when it comes to utility rate making.

Ms. Shober then reviewed a slide provided in KUB's previous presentation that includes the history of rate increases. She explained SACE requested from KUB the cost of service study and later receive it through an open records request. She noted in a number of cases, KUB rate changes were approved in 3-year increments. She reviewed information related to KUB's cost of service study and shared an "illustrative change to the fixed fee and energy rate when only customer-related costs are included in the fixed fee."

Ms. Shober shared a slide comparing KUB's basic service charge to other utilities. She noted KUB's basic service fee is on the higher end compared to the utilities included on the slide.

Mike Odom asked about other areas of the country, like in Texas, where there is an "open system" and the end utility provider isn't responsible for capital investments in the system and if in these cases, there could be lower fixed fees because they aren't responsible for those investments. Ms. Shober said the providers still have to pay to use the wires and the rate is usually based on kilowatt hours.

Amy Midis asked about a slide Mike Bolin of KUB presented that showed how KUB's basic service charge compares to other utilities. Dr. Smith noted that comparison was for distributors within the TVA service area. Ms. Midis asked if the other utilities shown on SACE's slide are investing as pro-actively in the utility systems as KUB is doing with Century II and if they may have to later increase their fixed fees to make such investments. Ms. Shober indicated she can't speak for the other utilities but in general utilities across the nation are investing in reliability. Dr. Smith expressed he does not feel the other utilities represented on the slide provide less reliable power than KUB. He also stated again SACE is not trying to interfere with KUB's recovery of those costs, but it is a policy choice by the Board to determine whether they are recovered through fixed fees or the variable rate. He stated the fixed fee does not mean you have a more reliable system.

Erin Gill asked for clarification on the point being made by the slide, since the slide illustrates there is variability in the basic service charge, and there are 2,000 public power utilities across the nation with different climates and different amounts of average usage by customers. She indicated it seems you could create a similar graph with different utility companies as the examples and KUB's basic service charge may rank differently. She noted the slide may not be an "apples to apples comparison" because we don't know the average kilowatt hour usage for Colorado Springs, for example.

Ms. Shober agreed but said the fixed fee doesn't change based on the usage, and she stated the utilities shown on the slide are comparable to KUB. Ms. Gill asked if the slide was normalized for kilowatt hours, and Ms. Shober confirmed it is not.

Tiki Dixon asked if the other utilities are similar to KUB in that they must purchase all of their power from the same source, such as KUB does with TVA. Ms. Shober explained it varies. Some of the utilities own their generation and some buy from the market. Mr. Dixon said this could skew the numbers. Dr. Smith stated the issue is more about the policy decision for how revenues are collected and how much is through the fixed fee versus the variable rate.

Christina Bouler asked if it is SACE's opinion that it is just as risky for KUB to try to recoup its costs completely through the variable rate versus some of it in a basic service charge. Ms. Shober indicated she hasn't seen anything to indicate it is more or less risky to put the charges in the basic service charge or the rate. She stated risk comes into play when it may be more difficult for a utility to get its rates approved by a public service commission.

Dr. Smith said he wanted to reiterate SACE is not trying to prevent KUB from recovering its costs.

Tiki Dixon said he feels another variable could be how soon KUB or the other utilities want to recover their costs. Dr. Smith said he feels all utilities are equally committed to having reliable power, but there can be differences in the pace of investment, etc.

Erin Gill referenced Chattanooga as an example of what seems to be a similar utility to KUB in that they have high reliability and have made large investments in the system. While Chattanooga has a lower basic service charge, which is a policy decision they have made, the total average bill is higher than KUB's average bill, and KUB's Board members who have attended past meetings have clarified the thoughts behind their policy decision and their concern with not causing higher bills especially when customer usage is above average.

Dr. Lyons noted the end time for the meeting was approaching, and he wanted to ask the panel if they agreed this presentation and discussion would continue at the next meeting, which is scheduled for April 7th. The panel agreed.

Ms. Shober reviewed the annual average usage by customers and the average bills. Haseeb Qureshi asked about customer growth. Ms. Shober said across the industry, electric load has been flat or declining and this can vary among utilities. Mark Walker, KUB Senior Vice President and Chief Financial Officer, explained the average customer growth for KUB is about 1% per year. Mr. Qureshi asked if this was true for both residential and business customers. Mr. Walker noted while there can be more variability in growth for business customers, the average growth is close to 1%. Mr. Qureshi stated he felt it is important to consider the growth factor as this discussion continues.

Dr. Smith talked about the impact of energy efficiency on electric load. As technologies have evolved, electric usage has flattened even with growth because of more efficiency.

Ms. Shober discussed data KUB shared related to all customers who received LIHEAP assistance in fiscal year 2021 and their average consumption. She illustrated KUB's average usage for 2020 was 1,121 kilowatt hours and stated over half of these customers had usage below 1,200 kilowatt hours. She also indicated there are many low-income customers in Tennessee who did not receive LIHEAP funds and it's not clear what their usage may be. Dr. Smith stated he believes more information should be analyzed related to low-income customer usage.

Mr. Qureshi asked if there are additional customers in need of LIHEAP assistance in the local area that were not able to take advantage of this resource. Ms. Kelly explained in Knox County, the full allocation of LIHEAP funds is utilized to serve customers in need, and she believes if additional funding was available, it would be utilized by additional customers in need.

Dr. Lyons noted the end time for the meeting was upcoming. He confirmed SACE has five more slides to share, and he asked the panel to confirm if they would like to plan to hear Kent Minault's presentation after that. The panel agreed.

The meeting adjourned at 4:30 p.m.