

**MINUTES FROM THE RATE WORKSHOP
OF THE UTILITY BOARD OF THE CITY OF KEY WEST, FLORIDA,
HELD AT 1:30 P.M. ON WEDNESDAY, JUNE 3, 2020
KEYS ENERGY SERVICES BOARD ROOM**

The above referenced workshop of the Utility Board of the City of Key West, Florida, convened at 1:30 P.M., on the above date and location and was called to order by Chairman Batty.

This meeting was held on a virtual platform due to COVID-19 required social distancing.

Utility Board Members Present

Peter Batty, Chairman
Mona Clark, Vice Chair
Robert Barrios, Member
Timothy Root, Member
Steven Wells, Member

Staff Present

Lynne Tejada, General Manager & CEO
Jack Wetzler, Assistant General Manager & CFO
Nathan Eden, Board Attorney
Edee Delph, Executive Assistant to GM/CEO & UB
Nick Batty, Director of Legal & Regulatory Services
Julio Torrado, HR & Communications Director
Dan Sabino, Engineering & Control Center Director
Erica Zarate, Customers Services Director
Jessie, Perloff, Accounting & Analyst Supervisor
Amy Haas, Accounting & Financial Analyst
Jeanette Williams, Accounting & Financial Analyst

Others Present

Pat Labrada, Utility Board Candidate (Seat E)
Maxwell Bernt, Director of Energy Practice for NewGen Strategies and Solutions

Mrs. Tejada introduced Mr. Maxwell (Max) Bernt, Director Energy Practice for NewGen Strategies and Solutions. Mrs. Tejada said that Mr. Bernt will present the findings of the Rate Study and provide the Board with Cost of Service considerations and Rate Design Options.

Mr. Bernt reviewed a power point presentation and provided the following information:

Avoided Cost Credit for Solar Customers

- Avoided Cost: the incremental costs to an electric utility of electric energy or capacity or both which, but for the purchase from the qualifying facility or qualifying facilities, such utility would generate itself or purchase from another source
- Explained Difference Between:
 - Traditional Net Metering
 - Stand by Service
 - Buy All Sell All
 - Bi-Directional
- Provide Excerpts from:
 - Florida Administrative Code: Rule 25-6.065 (Investor Owned Utilities)
 - Florida Statute: 366.91
- Discussed various Calculation Methods for Avoided Cost Credit for Solar Customers
 - Proxy Unit Methodology
 - Peaker Unit Methodology
 - IRP Based Avoided Cost Methodology
- Conclusion of Avoided Cost Credit for Solar Customers:
 - Bi-directional metering is becoming a more common approach to net metering and provides a reasonable compromise between net metering and buy-all sell-all
 - An avoided cost credit set to be the greater of the Proxy Unit approach and the Differential Revenue Requirement approach provides an easy to understand and defend methodology with protection for impacts related to declining PPA prices on member bill credits

The Board had some discussion on the various options presented and agreed to consider the proxy unit methodology for KEYS net metering program. They specifically stated that those customers currently grandfathered in should remain grandfathered.

Residential Demand Pilot

- Background
 - In April 2019, KEYS started a Residential Demand study to learn more about usage patterns of residential users
 - Installed or used demand meters already in the field on sample of residential customers for demand load research (364 total accounts in sample)
 - Data analysis based on data from May 2019 to Present
- Residential Demand Conclusion
 - Average KEYS load factor is lower than FP&L load research values used for COS (21% vs 24%)

- KEYS unique system does not mirror FP&L or other system with available proxy data; AMI metering is required to get a truly accurate picture of KEYS cost structures
- High energy users (over 2,500kWh/month) all pay more than COS
- High demand users (over 20kW) generally, but not always, pay more than COS
- Current rates result in large energy users subsidizing low energy users. Higher customer charges or introduction of a demand charge would decrease intraclass subsidy but would result in a rate increase to low use customers.

The Board discussed the results of the pilot program and asked staff to continue exploring AMI options that could enable demand charges to residential and small commercial customers.

Cost of Service

- Revenue Requirement
 - Identify cost to operate utility and determine rate revenue necessary to keep KEYS financially solvent.
- Cost of Service
 - Determination of cost to serve different customer classes, identifying fixed and variable cost components within each class.
- Rate Design
 - Use the COS results, rate strategy document and policy to guide rate design. Rates must fully recover all costs.
- Cost of Service Process
 - Test Yearly Revenue Requirement
 - Functionalize
 - Classify Allocate to Customers
 - Allocate to Customers
- Cost of Service Revenue Requirement
 - Test Year revenue requirement based on 2020-2024 projected costs and revenues from budget/financial plan adopted by Board 9/11/2019
 - Revenues at current rates forecasted to meeting revenue requirements through 2024
 - Cost of Service Functionalization
 - Power Supply Report
 - Transmission
 - Distribution
 - Customer
 - Total Cost of Service

Rate Design Proposal / Summary of Options

- Rate Design Model Components
 - Determine Design Model Components
 - Evaluate Customer Impacts and Implementation Strategies
 - Set Final Rates
- Rate Design Objective
 - Ensure Utility revenue recovery is sufficient of five-year planning period
 - Improve recovery of fixed vs. variable related cost
 - Provide Options for Rate Changes

Rate Design Scenarios

- **Scenario 1:** No Change
- **Scenario 2:** Improve fixed cost recovery
 - Option A: Revenue neutral at average usage
 - Option B: Revenue neutral at regional comparison usage metrics
- **Scenario 3:** Aggressive improvement of fixed cost recovery
 - Option A: Revenue neutral at class average usage
 - Option B: Revenue neutral at regional comparison usage metrics

Rate Design Proposal

Mr. Bernt provided several rate design options for Residential, Small Commercial, Large Power for Churches, Large Commercial and Large Commercial-Primary Customers.

The Board discussed all rate design options provided in the power point and the consensus of the Board was the following:

- Residential Option – Scenario 2a
- Small Commercial Option – Scenario 2a and 2b
- Large Commercial Option – Scenario 1a
- Large Commercial Primary Option – Scenario 1a
- Large Power for Churches Option– Scenario 1a

Chairman Batty asked if graduated customer charges would assist in providing rates closer to the cost of service in the absence of demand rates. After some discussion, it was agreed that Mr. Bernt and staff would provide the Board with more information on graduated customer charges.

Mrs. Tejada provided the Board with a summary of today's meeting stating the following:

Staff will come back to the Board for conceptual approval of Solar Rates and provide the Board with additional information regarding the proxy unit methodology.

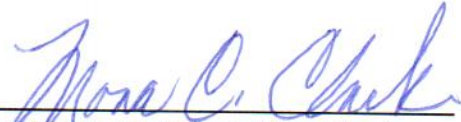
Staff will come back to the Board with an informational item to discuss a graduated customer charge for the residential class.

A copy of the power point presentation and all documents discussed are available upon request.

ADJOURNMENT

The Wednesday, June 3, 2020, Rate Structure Workshop was adjourned by Chairman Batty at 3:55 P.M.

APPROVE:



Mona C. Clark, Vice Chair

ATTEST:



Lynne E. Tejeda, General Manager/CEO & Secretary

/ed