

KUB

Electric Cost of Service Study

March 15, 2018



Funding Electric Century II

- Commitment to fund infrastructure improvements and replacements
- Board directed long-term financing decisions
- Combination of debt and rate increases
- Modest rate increases

Rate Increases

- Applied to residential basic service charge
- Decided to conduct a cost of service study before consideration of next rate actions in 2020
- Contracted with Utility Financial Solutions (UFS) for cost of service study

Cost of Service Study

- Determine revenue requirement
- Divide requirements into Power Supply and Distribution Costs
- Categorize costs into Customer, Energy, and Demand
- Allocate costs to each rate class

Cost of Service Summary Results

Rate Class	Cost of Service	Projected Revenues	Percent Change
Residential	\$285,410,595	\$261,608,765	9.1%
Outdoor Lighting	\$9,950,346	\$9,406,603	5.8%
GSA1	\$41,145,944	\$47,984,671	-14.3%
GSA2	\$129,376,255	\$141,662,949	-8.7%
GSA3 Secondary	\$23,041,056	\$26,814,929	-14.1%
GSA3 Primary	\$10,605,689	\$12,463,030	-14.9%
Non-Standard	\$58,374,612	\$57,945,256	0.7%
Total	\$557,904,496	\$557,886,204	

Cost of Service Results

Rate Analysis

Rate Class	Current Basic Service Charge	Cost of Service Basic Service Charge	Demand	Energy
Residential	\$19.10*	\$20.26*	\$ -	\$0.0975
GSA1	\$26	\$31.30	\$ -	\$0.0865
GSA2	\$75	\$177.48	\$13.11	\$0.0574
GSA3 Secondary	\$200	\$342.16	\$12.96	\$0.0575
GSA3 Primary	\$200	\$438.98	\$12.71	\$0.0574

*Does not reflect hydro credit of \$1.60

Components of Basic Service Charges

- Minimum System Costs
 - Based on minimum system design
 - Costs required to enable customer to “flip the switch”
- Direct Customer Costs
 - Meter O&M
 - Meter reading
 - Billing
 - Services
 - Customer services

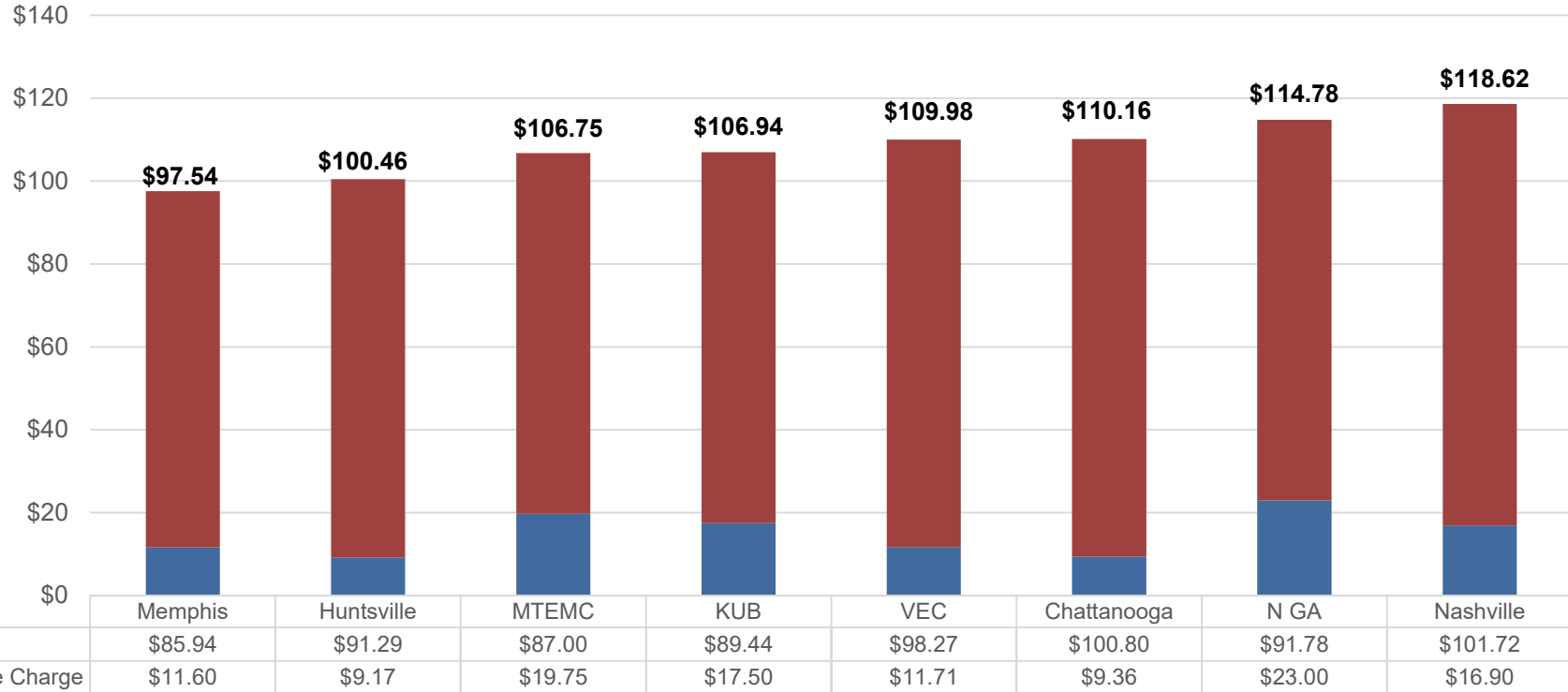
Residential Basic Service Charge Components

Distribution Customer Costs (Poles and Wires)	\$11.60
Transformer Customer Costs	\$2.65
Substation Customer Costs	\$0.54
Meter O&M	\$1.86
Meter Reading	\$1.04
Billing	\$1.28
Services	\$0.40
Customer Service	\$0.89
Basic Service Charge	\$20.26
Less TVA Hydro Credit	-\$1.60
	\$18.66
Current KUB Basic Service Charge	\$17.50

Study Conclusions

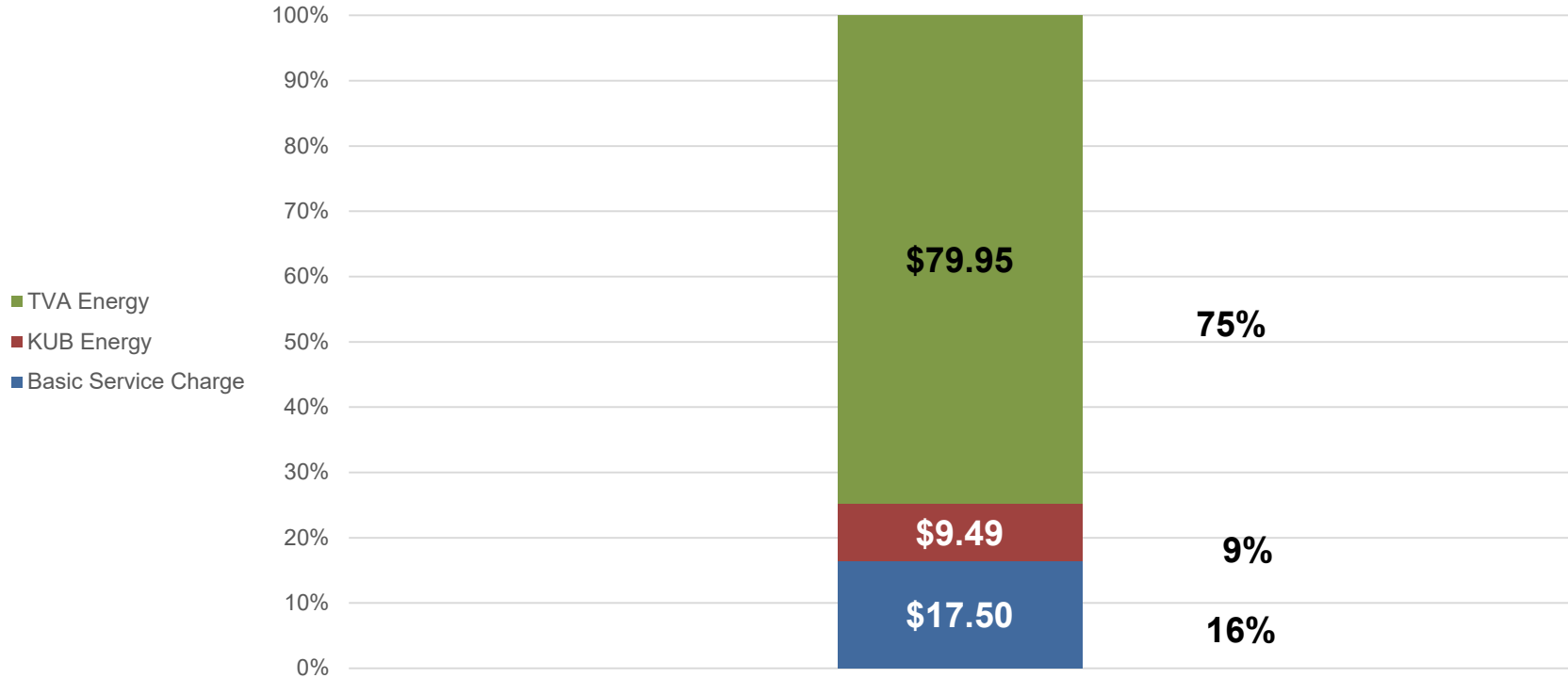
- Some customer classes paying above cost of service – some customer classes paying below cost of service
- Residential class paying basic service charges below cost of service
- Results typical of other utilities

Total Bill Comparison – December 2017 “Big 8”



1,000 kWh use bill as of December 2017

Residential Bill Components

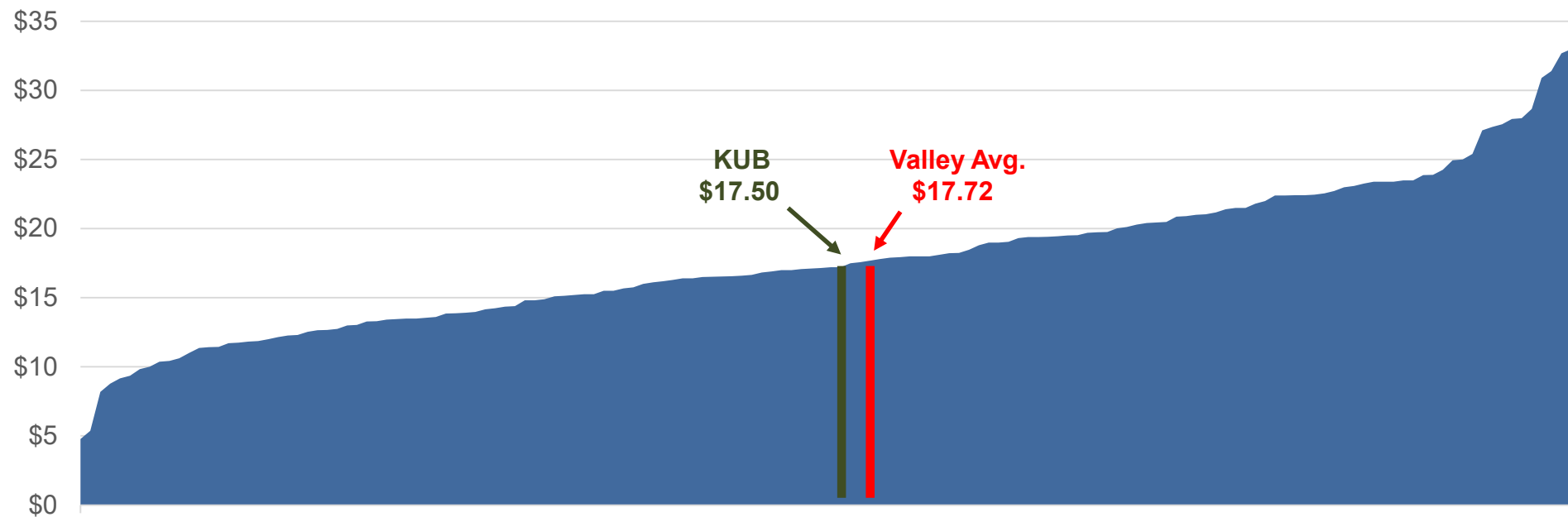


December 2017 bill based on 1,000 kWh monthly bill

KUB Residential Basic Service Charge About Average of TVA Distributors

Residential Basic Service Charge – TVA Power Distributors

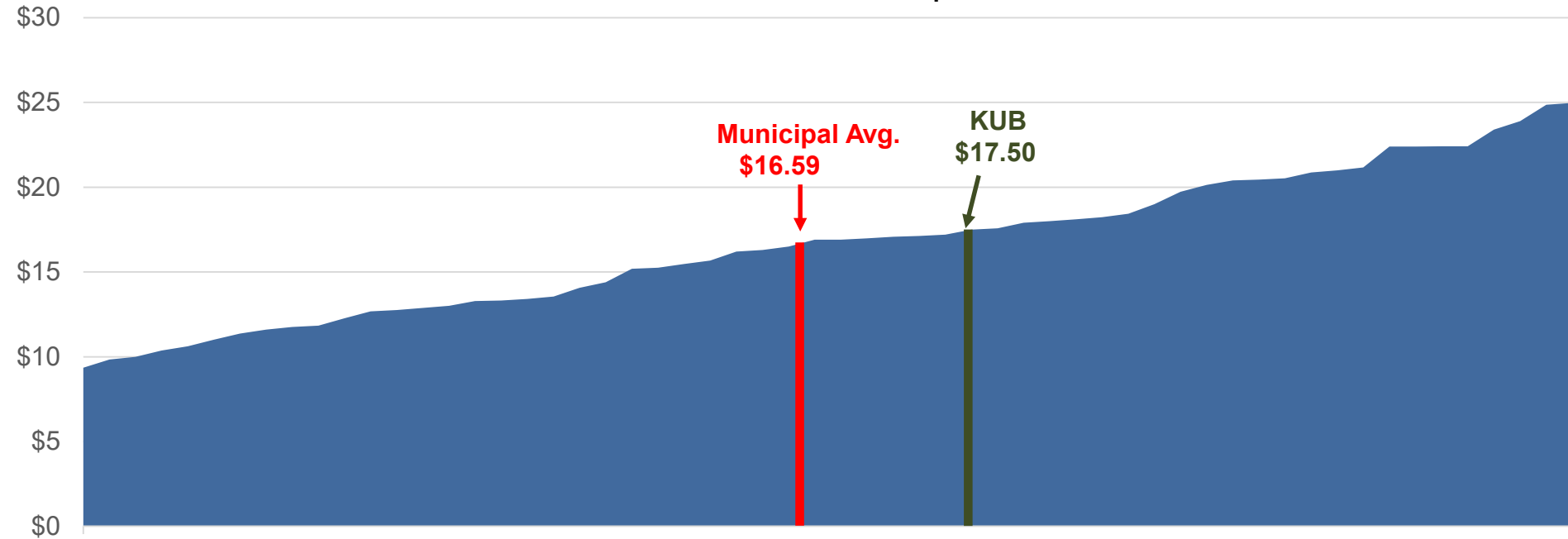
KUB Ranks #79 of 152 TVA Power Distributors



KUB Residential Basic Service Charge On Par with Other Municipal Systems in Tennessee

Residential Basic Service Charge – Municipal Power Distributors (TN)

KUB Ranks #35 of 58 Tennessee Municipal Power Distributors



KUB