



MATCHING CUSTOMER RATES WITH THE COST OF PROVIDING SERVICE

INTRODUCTION TO COST OF SERVICE

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Informational Update

WHAT WE'LL COVER TODAY

- Municipal utility regulatory requirements
- What is a cost-of-service (CoS) study?
- CoS study process
- What to expect

Today, we'll walk through the fundamental principles of a CoS study, setting the groundwork for cost allocation conversations in the future.

MOU REGULATORY GUIDELINES

SUFFICIENT, EQUITABLE, NON-DISCRIMINATORY

- Rates must collect enough revenue to fully **cover all costs**.
- Customers are grouped based on similar usage and cost patterns; rates must be **equal and uniform** within the same customer group.
- Rates may not be **unreasonably preferential, prejudicial, or discriminatory** in charges or services between customers in similar situations.

WHAT IS A COS STUDY?

PURPOSE

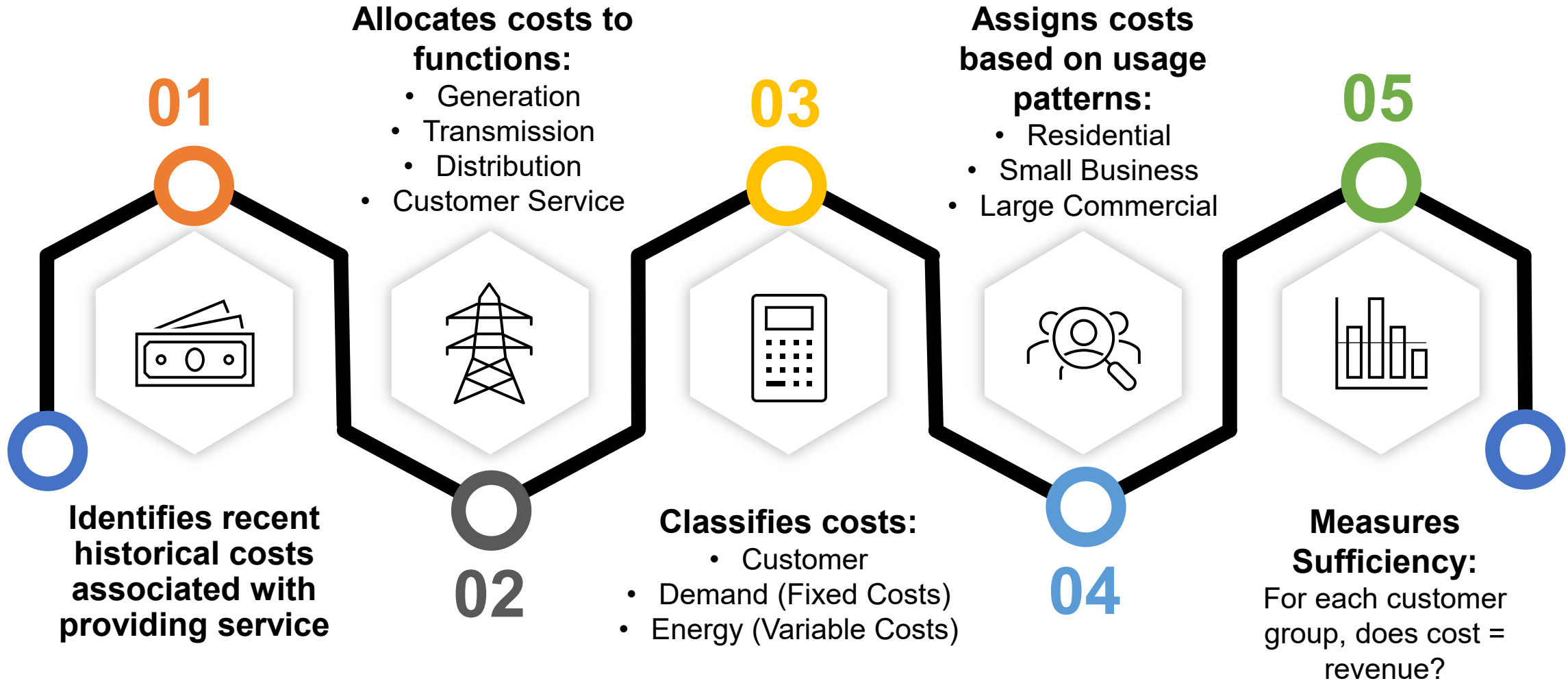
A cost-of-service study is designed to ensure each customer class pays for what it costs to serve them. Covers electric and gas business.

- It **examines** customer consumption patterns and the costs incurred to serve them.
- It **compares** rate recovery under existing rates versus the cost to serve each rate class.
- It **guides** decisions about fair and balanced cost recovery for our community.



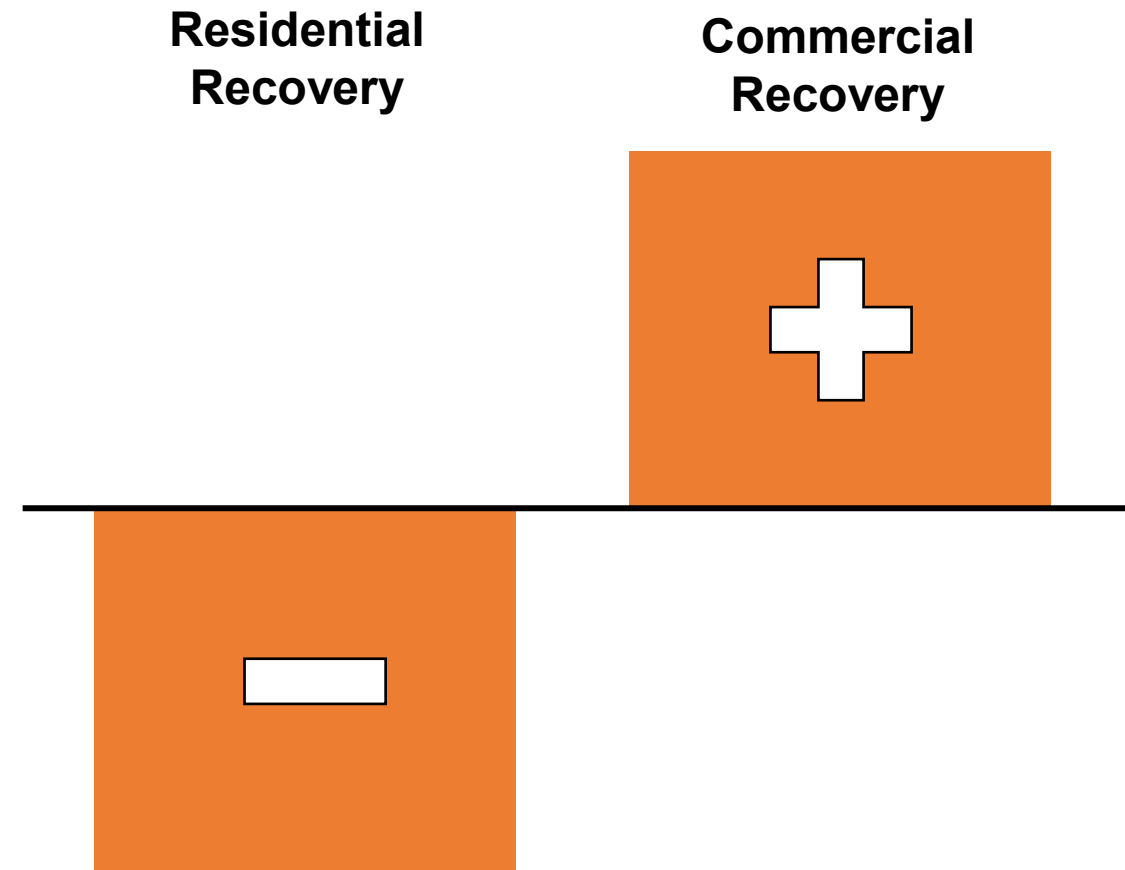
We routinely seek 3rd-party review of our rates and costs to ensure they are aligned.

HOW DOES IT WORK?



WHAT DOES IT TELL YOU?

- It shows how current and historical costs relate, without predicting future costs.
- It shows the cost to serve customer groups based on usage factors that actually drive cost.
- It shows where cost imbalances exist.
- It does not tell you **when** a rate increase is needed, only how costs should be **allocated** if one occurs.

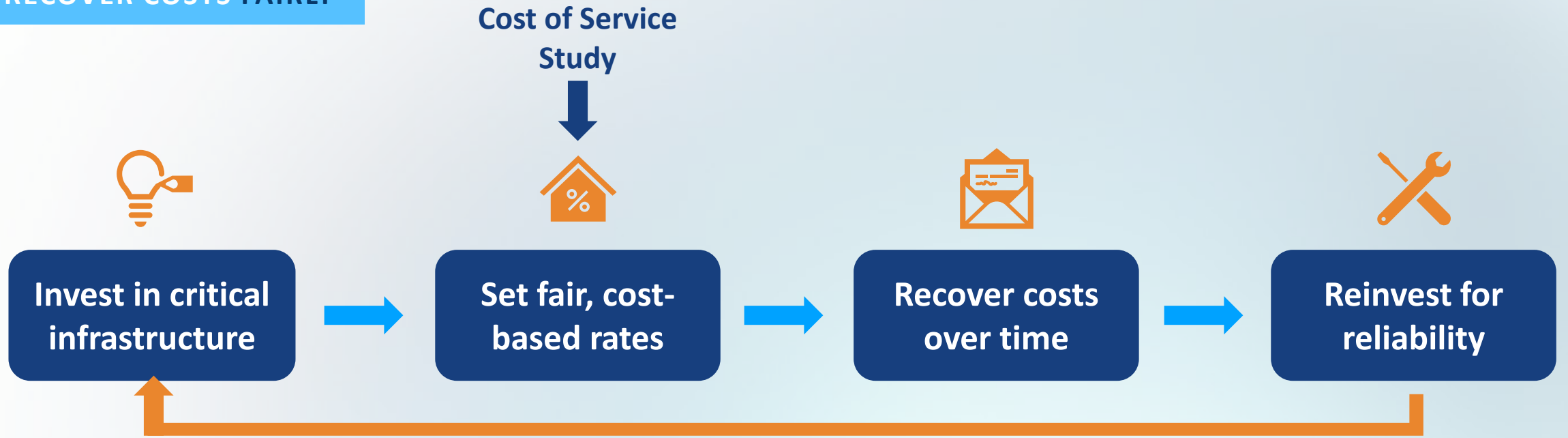


A cost-of-service study provides facts that support a thoughtful discussion on rate design and affordability.



APPENDIX

RECOVER COSTS FAIRLY



We invest in **building, maintaining and replacing** the equipment needed to deliver safe, reliable energy to our community.

We study how each customer group **uses** our energy, so that our **rates reflect the true cost to serve** each customer group.

Over time, **customer payments** allow us to cover shared system costs, manage debt, and meet our **commitment to the community**.

We **reinvest** in daily operations and system improvements to keep service **reliable** and **affordable**.