

6.B. 2026 / 2027 New and Amended Rate Structure Recommendations

Rochester Public Utilities Board Meeting
August 26, 2025



Overview

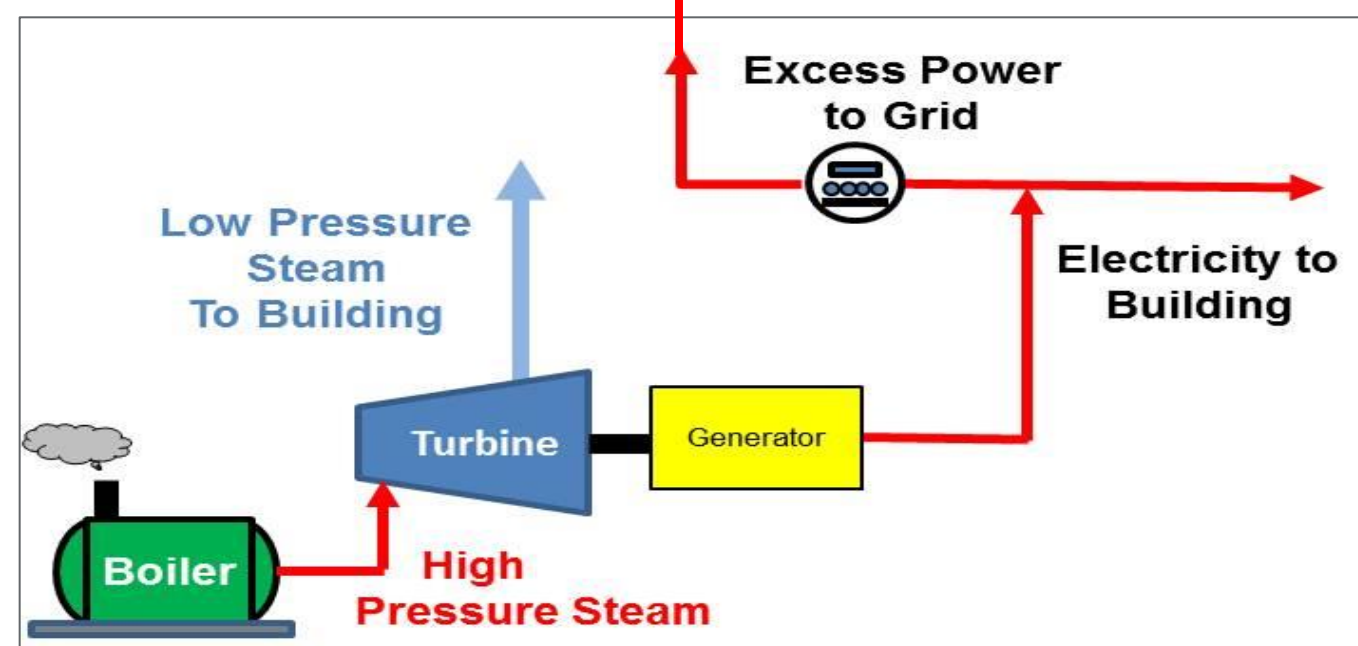
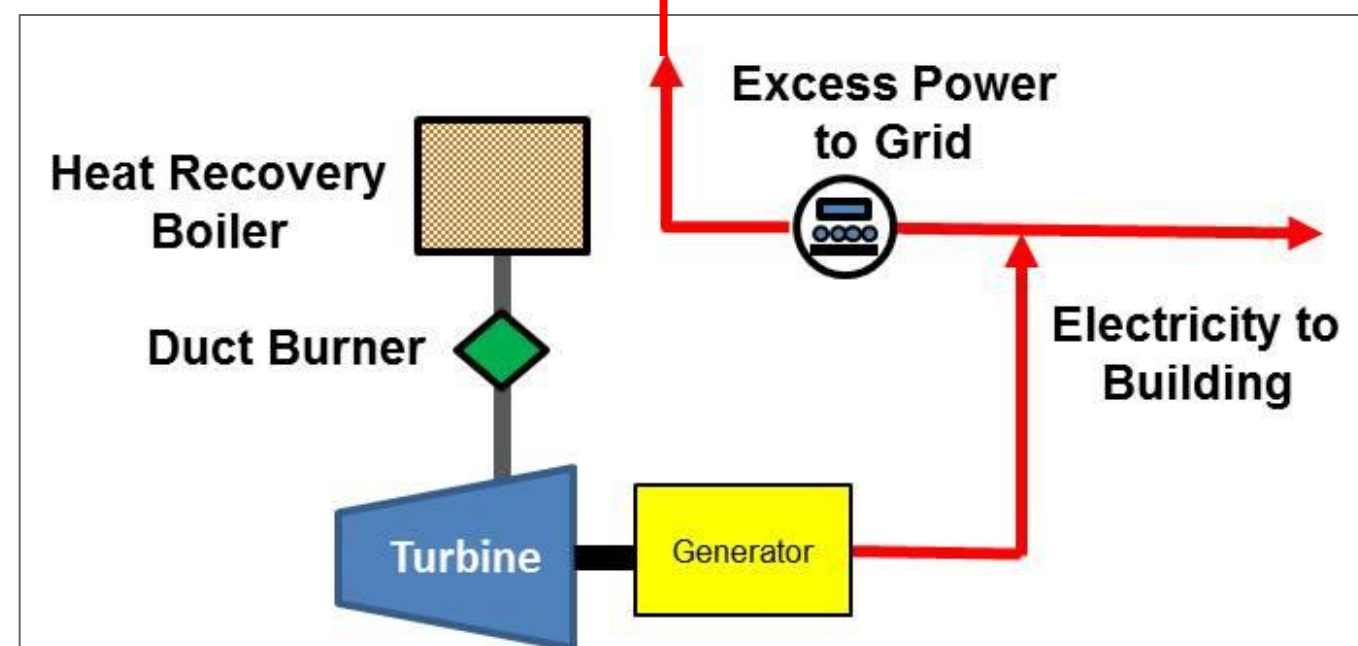
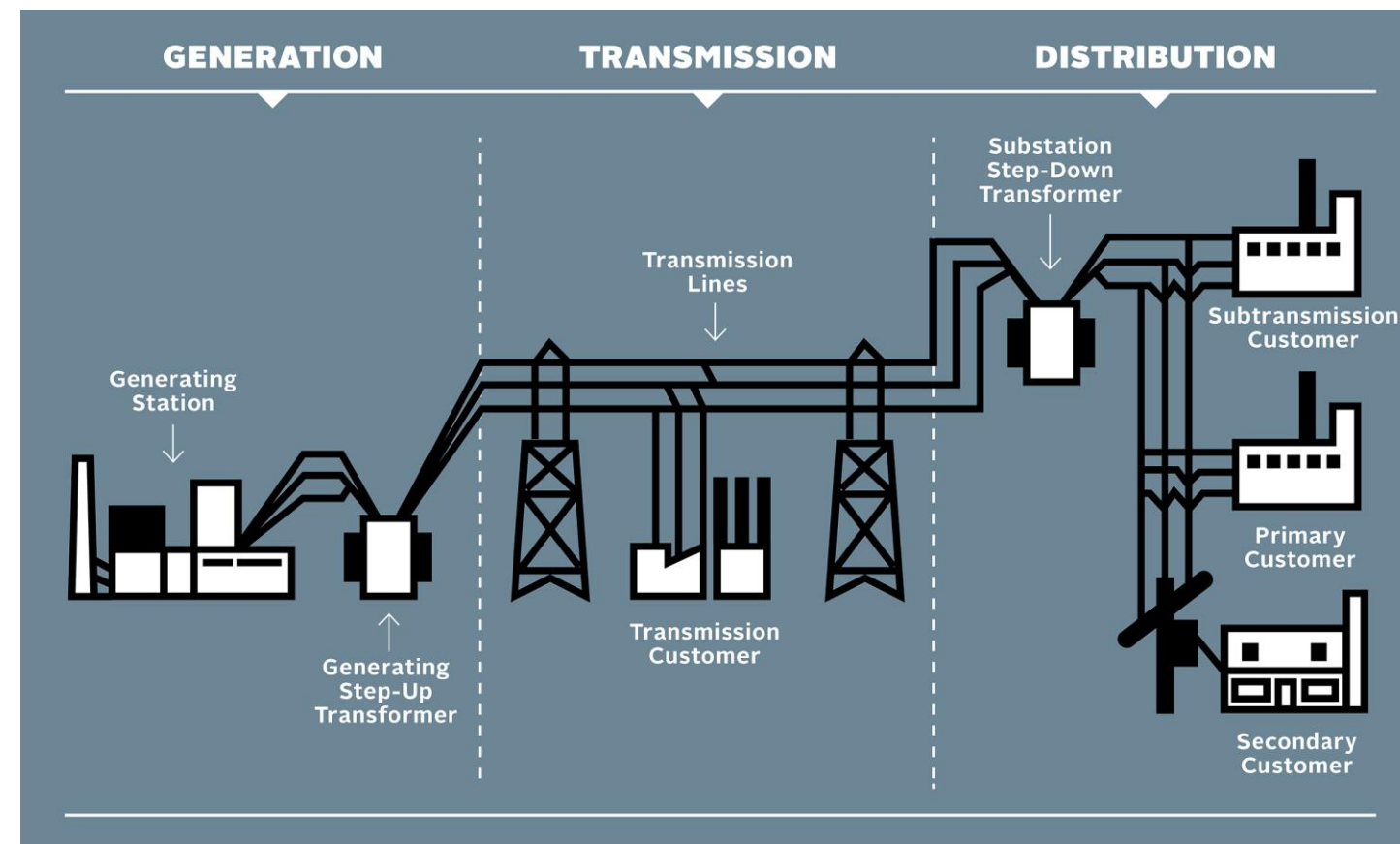
Proposed 2026/2027 Rate Tariff – September 30, 2025

1. Cogeneration standby charge
2. Power cost adjustment
3. Other miscellaneous fees





Cogeneration Standby Charge



- A **Cogeneration Standby Charge** is a type of Standby Service Rate designed to recover fixed costs from the overall system that exist to support backup (or standby) supply to a customer but aren't recovered through typical rates due to cogeneration system operations.
- **Cogeneration Standby Charge:** \$8.50/kW-mo (Current Estimate).

Cogeneration Plants:

- normally operate 24/7/365.
- are shutdown down for periodic maintenance
- experience forced outages
- when offline, commercial or industrial customers still require utility power



Cogeneration Standby Charge

Recommendation:

- Implement a new **cogeneration standby charge** for all future cogeneration power plants based on name plate capacity.
- Set a **cogeneration standby charge** value based on RPU's cost to support plants during outages and maintenance.
- Existing customer cogeneration power plants would not be impacted.

Justification:

- Cogeneration typically plants operate 24/7 and will result in a cost shifts to existing and future customers under existing rate structure.
- Transmission & Distribution system costs remains in place to support the customer load when the plant is offline.
- Generation capacity (purchased or built) remains in place to support load when the plant is offline.
- Reduce cost shifts to other customers for distribution, transmission and capacity costs to support the cogeneration plant.
- Other large utilities in Minnesota have had standby charges for cogeneration plants for many years.
- Future MISO capacity rules could impact the current proposed **cogeneration standby charge**.
- Future costs of RPU's distribution and capacity will impact this rate. (2030 Resource Plan)

Recommended Implementation:

- Draft a new program tariff and include in the 2026/2027 rate tariff for Board and Council approval.
- Establish reasonable rates based on RPU costs.
 - Recommended **cogeneration standby charge** \$ 8.50/KW
 - 2025 LIS Demand \$ 21.83/KW
 - 2025 LGS Demand \$ 22.22/KW
- Communicate rates and tariffs to key future cogeneration customers.
- Implement a new **cogeneration standby charge** on 1/1/2026 for all new interconnected cogeneration plants.



Power Cost Adjustment (PCA)

Energy Supply Adjustment Names

Power Cost Adjustments

Energy Cost Adjustments

Fuel Cost Adjustments

Energy Supply Costs	\$ 50,000,000	a
kWh's Billed	900,000,000	b
Average Cost of Power Supply	0.0556	a/b
Base included in Rates	0.050	
Power Cost Adjustment	0.0056	

Theory:

A base amount of energy costs is included in the rates for each customer class. When energy costs exceed the base rate, an additional amount is included on the customer's bill

Note:

The base rate (currently 7.285 cents/KWH) should be adjusted when PCA exceeds 2 cents on an ongoing basis.



Power Cost Adjustment (PCA)

Critical to Financial Stability

- Important for bond ratings.
- Helps stabilize revenue.
- Limits risk of over or under recovery of wholesale costs.
- Does not limit the risk of over or under recovery for distribution costs.

(Operating & Maintenance budget)

- If you change the base rate without changing the tariff rate by the same effective dollar amount you create a rate increase or decrease to our customers. RPU has not changed the base rate since it was implemented in 2015.



Power Cost Adjustment (PCA)

Proposed Changes

- SMMPA projected wholesale rate reductions: 2026 (6.0%); 2027 (10.0%); 2028 (10.0%)
 - Reduce the standard rate to retain funds for debt service.
- Include the wholesale sales and variable costs in the PCA calculation.
 - Currently we realize about \$4.5M gross margin each year from sales to MISO.
 - Reduce the standard rate to retain the current level of gross margin.
 - Future growth in wholesale gross margin will be passed through to customers.
 - Our wholesale generation is an energy cost hedge against market purchases.
- Include short term (less than 5-year term) capacity sales agreements in the PCA.
- Note: Current power purchase agreements are included in the PCA. (MISO, SMMPA)
 - Includes energy, capacity and transmission.



Other Miscellaneous Fees & Charges

	2025	2026	2027
• Water Availability Fee (per Acre)	\$ 3,448.87	\$ 3,759.27	\$ 4,097.60
Moved from City schedule of Fees and Charges for Licenses, Permits, Services and other Chargers to Water tariff.			
Will be effective for new development agreements after Jan 1 st each year.			
Will be updated based on the comprehensive master plan study in 2026.			
• Electric Line Extension Fee			
Residential	\$ 1,150	\$ 1,400	\$ 1,485
Commercial (less than 25KVA)	\$ 1,400	\$ 1,680	\$ 1,780
• Multiple Plat Reviews – 3rd and subsequent reviews charged at time and materials			
• Credit Card Processing Fee (New)			
Residential (per transaction)	\$ -	\$ 3.00	\$ 3.00
Commercial (per transaction)	\$ -	\$ 16.00	\$ 16.00



Next & Future Steps

2026/2027 Rate Tariff

- Include the proposed **cogeneration standby change** effective 1/1/2026.
- Include the recommended changes to the **power cost adjustment** calculation effective 1/1/2026.
- Adjust the PCA standard rate effective 1/1/2026 for the wholesale gross margin.
- Adjust the PCA standard rate to coincide with the actual SMMPA wholesale adjustments.
- Include updates to electric line extension fee, multiple plat reviews.

Solar Rebate

- Being evaluated based on the impact of the power supply resource plan.
- Will be implemented as part of the current conserve and save program.

Interruptible Rate Program

- Will be included as part of the 2026 electric utility cost of service study.

Water & Electric Development Fees in 2027 and beyond.

- Will focus on line-extension fees in the 2026 Electric Cost of Service Study
- Utilize the output of the water comprehensive master plan to inform the water development fees



Questions