



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Set Public Hearing for May 16, 2007 to introduce ordinance amending Chapter 13.20, "Electrical Service," by replacing Section 13.20.175 Schedule MCA (Market Cost Adjustment) with Schedule ECA (Energy Cost Adjustment) to become effective July 1, 2007 (EUD)

MEETING DATE: May 2, 2007

PREPARED BY: Electric Utility Director

RECOMMENDED ACTION: Set a public hearing for May 16, 2007 to consider changes to Chapter 13.20, "Electrical Service," by replacing Section 13.20.175 Schedule MCA (Market Cost Adjustment) with Schedule ECA (Energy Cost Adjustment). It is recommended that implementation be effective July 1, 2007.

BACKGROUND INFORMATION: Prior to December 2002, when the Market Cost Adjustment (MCA) was implemented, Lodi's electric rate schedules included an element similar to the ECA which was called a purchased power cost adjustment (PPCA). The applicability of the MCA superceded the old PPCA. Whereas the PPCA was applied equally to all kWh on all rate schedules, the MCA has been applied differently to specific rate classes and in some cases on a tiered amount based on monthly consumption. At times, some rate classes saw as much as 19¢ per kWh MCA, while others received little or no MCA. The MCA was intended to be reviewed/ revised on a quarterly basis and requires City Council action to make adjustments. The proposed ECA, on the other hand, would provide for "automatic" adjustments with reduced electricity prices theoretically just as likely as increased charges.

Similar schedules are utilized by electric utilities nationwide, including many of California's publicly owned utilities (i.e. Anaheim, Redding, Pasadena, Los Angeles, Imperial Irrigation District, and Roseville). Both of the financial rating agencies (Standard & Poors and Fitch) involved in periodic assessment of Lodi Electric Utility's financial condition and outlook have strongly supported the implementation of automated energy cost adjustment mechanisms as proposed herein.

The initial ECA base rate (\$.0831) being proposed is the approximate energy cost per kWh as reflected in current electric rates. The ECA would be recalculated each month as actual costs are determined and the resulting values implemented for bills rendered on the first day of the following month. Staff also proposes to provide ECA calculations to the Lodi Budget and Finance Committee for their ongoing verification.

The ECA would be a component of all City of Lodi electric rate schedules, be non-discounted and would replace Schedule MCA – Market Cost Adjustment.

Attached is a copy of the proposed Schedule ECA, a 12-month example utilizing fiscal year 2008 projected sales energy costs and a preliminary financial forecast for fiscal year 2008.

APPROVED: _____
Blair King, City Manager

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FISCAL IMPACT: The ECA is intended to be revenue/cost neutral – e.g. when energy costs increase, the ECA increases to offset such costs. The reverse is true during periods of energy cost declines. At the proposed base ECA level of .0831 per kilowatt-hour and projected fiscal year 2008 energy costs of \$43.3 million, ECA net revenue of \$3.2 million is projected for fiscal year 2008. This is projected to result in a net increase in fiscal year 2008 working capital of \$1.4 million. (see attached.)

FUNDING: Not Applicable.

George F. Morrow
Electric Utility Director

Prepared By: Sondra Huff, Senior Rate Analyst

GFM/SH/lst

Attachments (3)



CITY OF LODI

ELECTRIC UTILITY DEPARTMENT

SCHEDULE ECA

ENERGY COST ADJUSTMENT

APPLICABILITY:

This schedule is applicable to all electric customers served by the City of Lodi. Each customer shall pay the applicable rate plus an Energy Cost Adjustment (ECA) for each kilowatt-hour (kWh) delivered to the customer. The adjustment shall be the product of the total kilowatt-hours (kWh) for which the bill is rendered times the adjustment amount per kWh.

The purpose of the ECA is to adjust for increases/decreases to the City of Lodi's wholesale energy costs. This adjustment provides a mechanism to recover increased costs for wholesale energy or to lower collections when costs decrease below the base charge level.

RATES:

Effective July 1, 2007, the ECA billing factor for any given month shall be calculated as follows:

$$ECA = \frac{(a) + (b) - (c)(d+f)}{(e)} - (f)$$

Where:

- (a) equals the amount the City of Lodi is actually charged by the Northern California Power Agency for the billing month, including adjustments for prior billing periods, less any third party revenue credits.
- (b) equals the City of Lodi's estimated costs related to the acquisition of wholesale power, both financial and physical, procured directly by the City for the billing month, including adjustments for prior billing periods.
- (c) equals the difference between actual retail energy sales and projected sales level for the month which is two (2) months prior to the billing month.
- (d) equals the ECA billing factor for the month which is two (2) months prior to the billing month.
- (e) equals the forecast of projected retail energy sales for the billing month.
- (f) equals the baseline energy cost for the City of \$0.0831.

The City of Lodi will recalculate the ECA each month, and resulting amount shall be automatically implemented for bills rendered during the following billing month. ECA calculations will be presented to the Lodi Budget and Finance Committee for their ongoing audit verification.

	July 2007	August 2007	September 2007	October 2007	November 2007	December 2007	January 2008	February 2008	March 2008	April 2008	May 2008	June 2008	Total
Projected kWh Sales	47,855,123	50,777,091	45,204,178	39,096,357	33,805,787	35,250,737	36,781,484	34,100,289	34,836,715	34,723,133	36,718,520	41,954,944	471,104,356
Energy Charges	\$ 3,625,649	\$ 3,558,207	\$ 2,751,355	\$ 2,900,961	\$ 3,685,351	\$ 3,954,336	\$ 4,029,295	\$ 3,850,719	\$ 3,985,613	\$ 3,453,524	\$ 3,469,809	\$ 3,068,698	\$ 42,333,517
Average Rate	\$ 0.0758	\$ 0.0701	\$ 0.0609	\$ 0.0742	\$ 0.1090	\$ 0.1122	\$ 0.1095	\$ 0.1129	\$ 0.1144	\$ 0.0995	\$ 0.0945	\$ 0.0731	\$ 0.0899
ECA	\$ (0.0073)	\$ (0.0130)	\$ (0.0222)	\$ (0.0089)	\$ 0.0259	\$ 0.0291	\$ 0.0264	\$ 0.0298	\$ 0.0313	\$ 0.0164	\$ 0.0114	\$ (0.0100)	\$ 0.0068
Cumulative ECA		\$ (0.0103)	\$ (0.0140)	\$ (0.0129)	\$ (0.0069)	\$ (0.0018)	\$ 0.0018	\$ 0.0047	\$ 0.0073	\$ 0.0081	\$ 0.0084	\$ 0.0068	\$ 3,184,745

Baseline ECA	\$ 0.0831
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	Projected-FY08
Revenue	
Sales Revenues	66,889,770
ECA Revenue	3,188,145
Other Revenues	1,022,564
Total Revenues	71,100,478
Expenses	
Purchase Power	42,333,517
Non-Power Costs	11,300,000
Total Expenses	53,633,517
Net Revenue Available for Debt Service	17,466,961
Debt Service	9,131,628
Net Revenue Available for Other Purposes	8,335,333
In-lieu Transfer To General Fund	6,873,228
Other changes in working capital	-
Net Increase (Decrease) in Working Capital	1,462,105
Beginning Cash	5,571,823
GOR	
Ending Cash	7,033,928