

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, MAY 15, 2007**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, May 15, 2007, commencing at 7:00 a.m.

A. ROLL CALL

Present: Council Members – Hansen, Hitchcock, Katzakian, and Mayor Johnson

Absent: Council Members – Mounce

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Johl

B. TOPIC(S)

B-1 "Presentation of Proposal to Replace Schedule MCA (Market Cost Adjustment) with Schedule ECA (Energy Cost Adjustment)"

City Manager King briefly introduced the subject matter.

Electric Utility Director Morrow provided an overview of the proposed energy cost adjustment (ECA). Specific topics of discussion included background information, the proposed adjustment, the purpose of the adjustment, utilities with ECAs, ECA formula, monthly examples, sample ECA calculation, ECA revenue projections by class, fiscal year 2008 ECA forecast, Fitch report "excerpt," and summary.

In response to Mayor Johnson, Mr. Morrow stated Electric Utility generally buys electricity in advance, but there are some real time purchases as well. Mr. Morrow stated the front figure may change due to various projects, costs of fuel, and general market conditions. He stated even a five or ten percent open position can create significant change. Council Member Hansen discussed security costs for dams and the California Independent System Operator as examples for change. City Manager King stated there is also an uncertainty with actual demand, which is difficult to predict until it is incurred.

In response to Council Member Hitchcock, Mr. Morrow stated the ECA is revenue neutral and will not affect the in-lieu transfer.

In response to Council Member Hitchcock, Mr. Morrow stated approximately 67 cents of each dollar goes toward power supply costs, most of which is fixed. He stated about 13% of that amount is not hedged.

In response to Council Member Katzakian, Mr. Morrow stated the typical swing could be anywhere between a negative penny or two to a positive penny or two per kilowatt.

In response to Council Member Hansen, Mr. Morrow stated the numbers are only estimates and not absolute. City Manager King stated the .0831 number is the actual base amount.

In response to Council Member Hitchcock, Mr. Morrow stated a two cent difference could affect a bill by 10% to 13%, but the bill may decrease if less energy is used. Mr. Morrow stated staff will bring back information regarding typical customer usage.

In response to Council Member Hansen, Mr. Morrow stated it is not technically impossible to spread out the 7.19% for industrial users, but there are costs that need to be recovered and concerns of spreading the amount over different user classes to collect over a longer period of time.

In response to Mayor Johnson, the incentive to purchase electricity at the lowest cost possible is the measurement of how well the utility is doing by keeping the numbers as low as possible. City Manager King stated they did speak with large industrial users and the overall goal is to work with these users while maintaining the objectives of the proposed adjustment. Mr. King provided an overview of the utility's historical background from its financial condition in May 2005 to the present.

In response to Council Member Hitchcock, Mr. Morrow stated ECA roll back into rates will not be necessary unless there is a need to adjust the base portion of the rates.

In response to Council Member Hansen, Mr. Morrow stated ECA avoids sudden one-time large percentage rate increases and assists with bond agency ratings for stability purposes.

In response to Council Member Hitchcock, Mr. Morrow stated all utilities, including PG&E, have some differential between residential, commercial, and large industrial users. Mr. Morrow provided an overview of the rate of returns and stated PG&E comparisons for residential, commercial, and industrial will be brought back to Council. Discussion ensued regarding the same between Council Member Hitchcock, Council Member Hansen, and Mayor Johnson.

In response to Council Member Katzakian, Mr. Morrow stated the ECA does not technically affect the reserves and is revenue neutral.

In response to Council Member Hansen, City Manager King stated reserves are built by opportunity expansions such as the Roseville project, the Guild Avenue property, and under utilized assets. He stated there is a \$13 million target figure for in three years, but he does have some concerns regarding staffing levels at Electric Utility, which previously helped the overall budget and reserves.

In response to Mayor Johnson, Mr. Morrow stated the ECA formula does not create a compounding affect and the two-month figure is a purer number to ensure the Utility is recovering the exact cost and not under or over collecting. City Attorney Schwabauer stated the ECA is based on an estimate for variable costs and provided a rent example. Mr. Morrow stated the costs are pretty certain and the only variable is the sales.

In response to Mayor Johnson, Mr. Morrow confirmed the Utility is technologically equipped to handle the changeover and stated the Budget and Finance Committee will be providing oversight for the numbers.

In response to Council Member Hitchcock, Mr. Morrow stated the formula is typical conceptual wise and is very simple for implementation purposes.

In response to Council Member Hansen, Mr. Morrow stated the 4.8 figure is a projected average and not an exact number.

In response to Council Member Hansen, Mr. Morrow confirmed that the overall goal is to reduce the rates over time.

In response to Mayor Johnson, Mr. Morrow and City Manager King stated the numbers will also be brought back to Council, in addition to the Budget and Finance Committee, as part of the quarterly update.

PUBLIC COMMENTS:

- In response to Myrna Wetzel, Mr. Morrow stated the ECA item does not have anything to do with the new meter reading routes.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:08 a.m.

ATTEST:

Randi Johl, City Clerk