

Council Memo

Department Source: City Utilities - Water and Light

To: City Council

From: City Manager & Staff

Council Meeting Date: August 3, 2026

Re: Adopting a revised Power Cost Adjustment Procedure per Chapter 27 Section 118 of the City Code

Impacted Ward: Citywide

Executive Summary

Staff has prepared for Council consideration an ordinance adopting the revised Power Cost Adjustment Procedure that documents how the Power Cost Adjustment will be calculated on monthly electric utility bills beginning on October 1, 2026.

Discussion

The Power Cost Adjustment (PCA) ordinance was revised and updated in June 2023. This ordinance revises the Power Cost Adjustment Procedure adopted by Council in August 2023 and utilized by the Utility. The current PCA rate is capped at 15% of the residential first tier rate. The recommended revision is to increase the cap to 20% of the residential first tier rate. This action will accelerate utility cost recovery and more adequately protect the utility to ensure fund balances meet cash reserve targets.

A PCA is a common tool used by electric utilities to ensure rate stability. Most of the power supply costs are included in the base energy or customer charge portion of the electric rates. The amount of power supply costs included in the customer charge base rates is determined by a cost of service analysis and represents a typical year where costs were neither extremely high nor low. However, due to changes in weather, volatility in the fuel markets, and a variety of other macroeconomic causes, the actual costs of power supply can swing wildly from year to year. A PCA gives the Utility a mechanism to adjust revenue collection for power supply to avoid any large annual deficits or surpluses due to changes in the energy markets.

When energy costs are higher than the revenue provided by the base rates the overages must be paid using cash reserves. Depleting cash reserves results in significant financial strain on the Utility and can make an increase to rates necessary. The PCA helps avoid this scenario by keeping cash reserves stable, avoiding the need for reactionary increases. With the current PCA capped at 15%, the Utility did not recover more than \$10 million in power purchases from FY2025. Therefore, those costs are still being recovered in 2026. This is putting a strain on the Electric Fund cash reserves. It is anticipated that the utility will have to request additional funds from the cash reserves in the 4th quarter budget amendments to cover excess costs in FY2026 power purchases.

Costs for power purchase are increasing much more than the rate of inflation. The average Locational Marginal Price (LMP) in 2026 is more than 20% greater than in 2025. Weather and politics have a significant role in these market prices. These are costs that the City cannot control as it is part of the energy market.

The past values for the PCA are provided on the City website and will continue to be updated each month after the PCA is calculated. Power purchase costs are included in the base rates or customer charge in the City Code. The baseline value in the PCA calculation is equal to the total net expenses divided by the total energy sales for the test year using actual expenses and revenues. With FY2021 as the test year, the baseline value is \$0.0567 per kWh for power costs included in the base rate. This value will be updated with the proposed cost of service study to be completed in FY2027.

Fiscal Impact

Short-Term Impact: Adjustment of revenue based on power purchase costs.

Long-Term Impact: Adjustment of revenue based on power purchase costs.

Strategic & Comprehensive Plan Impact

Strategic Plan Impacts:

Primary Impact: Reliable and Sustainable Infrastructure, Secondary Impact: Organizational Excellence, Tertiary Impact: Not Applicable

Comprehensive Plan Impacts:

Primary Impact: Infrastructure, Secondary Impact: Not applicable, Tertiary Impact: Not Applicable

Legislative History

Date	Action
08/21/2023	B190-23 Adopting a Power Cost Adjustment procedure associated with metered electric service.
06/20/2023	B130-23 Amending Chapter 27 of the City Code as it relates to electric utility rates.

Suggested Council Action

Approve the ordinance adopting the revised Power Cost Adjustment Procedure.