Power Cost Adjustment Calculation Procedure

Purpose

The purpose of this policy is to outline the procedure used to calculate the monthly Power Cost Adjustment (PCA) that is applied to each kilowatt-hour (kWh) of energy sold by the electric utility.

Rationale

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 rates. The amount of power supply costs included in 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.

For customers, a PCA has two main benefits. First, it will immediately reduce how much the customer is charged for energy when power costs are low, lowering their bills and making electricity more affordable. Second, charging a little more when power costs are high helps to avoid large increases to base rates in the future. When energy costs are higher than the revenue provided by the base rates the overages must be paid using cash reserves. Depleting cash reserves can result in significant financial strain on the Utility and can make an increase to base rates necessary. The PCA helps avoid this scenario by keeping cash reserves stable, avoiding the need for reactionary increases.

Procedure

Beginning October 1, 2023 Columbia Water & Light (CWL) will assess a PCA charge to all metered energy sold by the Utility. The PCA will be a flat per kWh rate applied to each customer's monthly energy usage. The PCA will be based on all revenues and expenses related to power supply, including fuel and transmission. The PCA rate will be updated on a monthly basis using a combination of actual and forecasted revenues and expenses.

When the PCA value is negative the customer will receive a credit on their monthly bill equal to the PCA multiplied by the total monthly kWh usage. When the PCA is positive, the customer will be charged an amount equal to the PCA multiplied by the total monthly kWh usage. All other electric charges on the bill will remain the same.

The past values for the PCA will be provided on the City website https://www.como.gov/utilities/utility-rates/ and will be updated each month after the PCA is calculated.

The PCA will be initially based on forecasts for monthly system load, power cost expenses, and energy sales made by Utility staff. Staff will not use budgeted revenues and expenses for the purposes of setting the PCA.

Power purchase costs are included in the base rates in the City Code. The test year used in the cost of service study uses the actual revenues and expenses from the accounts listed in 1. below. The baseline value in the PCA calculation is equal to the total net expenses divided by the total energy sales for the test year. With FY2021 as the base year, the baseline value is $0.0567 per kWh for power costs included in the base rate. This value should be updated only with rate adjustments and/or a revised cost of service study and rate adjustment. This procedure will need to be reviewed with any future rate adjustment.

The PCA will be calculated to the nearest ten-thousandth of a cent ($0.000001) and applied each month using the following procedure.

1. Prior to October 1, 2023, CWL will forecast the monthly revenues and expenses for each account associated with purchased power, fuel, and transmission. The monthly revenues and expenses will be summed to yield the total net expected expenses for the fiscal year. The current accounts to be included are the following.

Account Number	**Description**	**Account Number**	**Description**
17560555-501040	ELEC TRANSMISSION OH	17550547-501036	NATURAL GAS
17560555-501045	ELEC TRANSMISSION EXP	17510501-501036	EL PROD NAT GAS
17560575-501040	ELEC TRANSMISSION OH	17510547-501036	EL PROD NAT GAS
5510-448457*	MISO TRANSMISSION	17540547-501036	EL LDF GAS NAT GAS
17560555-501049	PURCHASED POWER	5510-448447*	EL BAL RESALE

*= Revenue Accounts

2. Energy sales will also be forecast on a monthly basis for the fiscal year. The forecasted monthly energy will be multiplied by $0.0567, the baseline value, to determine the base rate power cost recovery. This represents the amount of power costs included in base rates. The calculated monthly power cost recovery will be added to determine the total power cost recovery for the fiscal year.

3. The difference between the total net expected expenses and the total purchase power recovery is determined. This is then divided by the total expected kWh sold to yield the PCA for October 2023.

4. For each subsequent month, the PCA will be recalculated using the same procedure after replacing the forecasted revenues and expenses with the actual revenues and expenses for each account. The actual energy sales for the preceding month will also replace the forecasted energy sales for the same month. The monthly purchase power recovery will be adjusted to include revenue from the PCA in preceding months, and the difference between expenses and recovery will be divided by the remaining energy expected to be sold in the fiscal year.

5. The PCA rate will not exceed 15% of the residential first tier rate in any month. Based on current rates, the PCA cap is $0.013335 per kWh.

6. In November each year the PCA will be trued-up based on any overages or deficits remaining from the preceding fiscal year. A projected true-up may be included in October to avoid excessive PCA volatility.