



Department Source: City Utilities - Water and Light

To: City Council

From: City Manager & Staff

Council Meeting Date: August 7, 2023

Re: Authorizing adoption of the Power Cost Adjustment Procedure per Chapter 27 Section 118 of the City Code

Executive Summary

Staff has prepared for Council consideration an ordinance adopting the procedure that documents how the Power Cost Adjustment will be calculated on monthly electric utility bills beginning on October 1, 2023.

Discussion

At the June 20, 2023 Council meeting, the City Council approved a revision to Section 27-118 of the City Code of Ordinances relating to Power cost adjustment. In the ordinance it states that the Council will adopt a procedure for implementation by the director. An ordinance which defines the Power Cost Adjustment Procedure for Council consideration is included. The purpose of the procedure is to calculate the monthly Power Cost Adjustment (PCA) that is applied to each kilowatt-hour (kWh) of energy sold by the electric utility.

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.

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.



City of Columbia

701 East Broadway, Columbia, Missouri 65201

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 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 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 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.

Fiscal Impact

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

Strategic & Comprehensive Plan Impact

Strategic Plan Impacts:

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

Comprehensive Plan Impacts:

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

Legislative History

Date	Action
06/20/2023	B130-23 Amending Chapter 27 of the City Code as it relates to electric utility rates.

Suggested Council Action

Approval of the ordinance.