

**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



**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: Presentation of Proposal to Replace Schedule MCA (Market Cost Adjustment) with Schedule ECA (Energy Cost Adjustment)

MEETING DATE: May 15, 2007 (Shirtsleeve Session)

PREPARED BY: City Manager

RECOMMENDED ACTION: Review changes to Chapter 13.20, "Electrical Service," regarding recommendation to replace Section 13.20.175 Schedule MCA (Market Cost Adjustment) with Schedule ECA (Energy Cost Adjustment) to be effective July 1, 2007, which is scheduled to come before the City Council as a public hearing at its regular meeting of May 16, 2007.

BACKGROUND INFORMATION: Prior to June 2001, 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 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 proposes to provide ECA calculations to the Lodi Budget and Finance Committee for their ongoing verification.

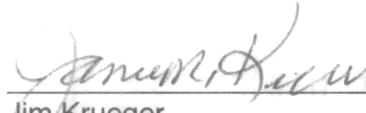
The ECA would be applied equally to all City of Lodi electric rate schedules, be non-discounted and would replace Schedule MCA – Market Cost Adjustment.

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

APPROVED: 
Blair King, City Manager

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 baseline ECA level of .0831 per kilowatthour and projected fiscal year 2008 energy costs of \$42.3 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.



Jim Krueger
Deputy City Manager

Prepared By: Sondra Huff, Senior Rate Analyst

GFMSH/1st

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:

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

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

B-1



CITY OF LODI ELECTRIC UTILITY DEPARTMENT

SCHEDULE ECA

ENERGY COST ADJUSTMENT

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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:

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

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- (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. The ECA shall not be discounted. ECA calculations will be presented to the Lodi Budget and Finance Committee for their ongoing audit verification.



Lodi Electric Utility

Energy Cost Adjustment (ECA)

**City Council
May 15, 2007**



Background

- EUD's current rates include a “manual” Market Cost Adjustment (MCA) mechanism
- Intent was to review and update quarterly/regularly to reflect market power costs
- Following its initial establishment, MCA level was not adjusted for over 4 years even though market power costs changed
- MCA has varied from zero to as much as 19¢ per KWH depending on rate tariff.



Proposal

- Modify the “manual” MCA clause to reflect changes in power supply costs “automatically”
- Energy Cost Adjustment (ECA) would be updated monthly to reflect actual EUD costs
- ECA could reflect a **charge** during periods where costs are higher than “base” level or a **credit** when costs are lower than base level
- ECA identical for all rate classes
- July 1, 2007 proposed effective date



Purpose

- To recover costs of power supply on a real time basis
- Minimize under or over collection of power supply costs
- Improve outlook of electric utility by the financial ratings community



Utilities with ECAs

- Anaheim
- Redding
- Roseville
- Los Angeles
- Imperial Irrigation District
- Lassen Municipal Utility District
- Pasadena



ECA Formula

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

Where:

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Monthly Example

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Projected kWh Sales	47,855,123	50,777,091	45,204,178	39,096,357	33,805,787	35,250,737
Energy Charges	\$ 3,625,649	\$ 3,558,207	\$ 2,751,355	\$ 2,900,961	\$ 3,685,351	\$ 3,954,336
Average Rate	\$ 0.0758	\$ 0.0701	\$ 0.0609	\$ 0.0742	\$ 0.1090	\$ 0.1122
ECA	\$ (0.0073)	\$ (0.0130)	\$ (0.0222)	\$ (0.0089)	\$ 0.0259	\$ 0.0291
Cumulative ECA		\$ (0.0103)	\$ (0.0140)	\$ (0.0129)	\$ (0.0069)	\$ (0.0018)

	Jan-08	February	March	April	May	June	FY08 Totals
Projected kWh Sales	36,781,484	34,100,289	34,836,715	34,723,133	36,718,520	41,954,944	471,104,356
Energy Charges	\$ 4,029,295	\$ 3,850,719	\$ 3,985,613	\$ 3,453,524	\$ 3,469,809	\$ 3,068,698	\$ 42,333,517
Average Rate	\$ 0.1095	\$ 0.1129	\$ 0.1144	\$ 0.0995	\$ 0.0945	\$ 0.0731	\$ 0.0899
ECA	\$ 0.0264	\$ 0.0298	\$ 0.0313	\$ 0.0164	\$ 0.0114	\$ (0.0100)	\$ 0.0068
Cumulative ECA	\$ 0.0018	\$ 0.0047	\$ 0.0073	\$ 0.0081	\$ 0.0084	\$ 0.0068	\$ 3,184,745
						Baseline ECA	\$ 0.0831



SAMPLE ECA CALCULATION

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

$$\text{ECA (1/08)} = \frac{4,029,295 + 0 - 0 (.0259 + .0831) - .0831}{36,781,484}$$

$$= \frac{4,029,295}{36,781,484} - 0.0831$$

(JANUARY, 2008)

$$= .10955 - .0831$$

$$= .02645$$



ECA Revenue Projections by Class

FY 08 Projections	kWh Sales	Sales Revenue	ECA Revenue	Sales + ECA Revenue	% Increase in Revenue
Residential	166,131,807	\$ 27,853,658	\$ 1,123,079	\$ 28,976,737	4.03%
Commercial	209,619,637	\$ 30,072,850	\$ 1,417,064	\$ 31,489,914	4.71%
Industrial	95,352,912	\$ 8,963,261	\$ 644,602	\$ 9,607,863	7.19%
Total	471,104,356	\$ 66,889,770	\$ 3,184,745	\$ 70,074,515	4.76%

Note: Assumes FY08 power supply costs of \$42.3 million



FY08 ECA Forecast

	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
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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

Preliminary



Other

- ECA computations subject to review by Lodi Budget and Finance Committee
- ECA to be “non-discounted” i.e. no Share discount, etc.
- Proposed to begin with billings in July 2007



Fitch Report “Excerpt”

Liquidity Factor Considerations

	Positive	<p>A Best</p> <ul style="list-style-type: none"> • Unrestricted cash. • Cash informally pledged. • Automatic rate adjustment (monthly preferred). • No automatic rate adjustment (but good dialogue with board). • Surplus fuel reserves. 	<p>B Good</p> <ul style="list-style-type: none"> • Automatic adjustment rate (semi annual or longer). • Cash formally pledged. • Margins substantially above rate covenant.
Credit Effect		<p>C Less Favorable</p> <ul style="list-style-type: none"> • Low fuel reserves. • Use of existing commercial paper program. • Drawdown of bank facility. 	<p>D Least Favorable</p> <ul style="list-style-type: none"> • Operating margins narrowly meeting rate covenant. • No automatic rate adjustment • New long-term deficit financing. • Asset sale.
	Neutral/ Weak	Quick	Slow
		Liquidity Access	



Summary

- Staff has prepared recommendation to adopt an ECA for FY08 and beyond
- Consistent conceptually with Lodi's past Market Cost Adjustment Charge (MCA)
- Would operate **automatically** versus past MCA which required manual action to change
- FY08 average projected impact of ECA is + 4.8%
- Would reduce Lodi's exposure to market energy prices
- Recommended by financial rating agencies



Questions/Comments?