

# FOR BOARD ACTION

Agenda Item # 7.

Meeting Date:

4/27/04

**SUBJECT:** Revisions to Purchased Power Adjustment Clause (PPAC)

**PREPARED BY:** Bryan Blom, Sr. Financial Analyst

## ITEM DESCRIPTION:

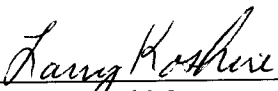
When the annual budget is prepared, assumptions regarding power supply costs are made and rate setting decisions are made based on those assumptions. Power supply costs are the largest expense in the annual budget comprising approximately 60% of planned operating expenses. If actual power supply costs are higher than the cost assumptions used in setting rates, the Utility is at risk of its financial position being weakened. The purchased power adjustment clause (PPAC) referred to in RPU's rate tariffs is the way the Utility protects itself against that risk. It comes into play when actual power supply costs are higher than power supply costs built into the rates and provides a way for the Utility to collect the power supply cost variance from its customers. This is common practice in the utility industry.

Annually the factors used in the purchased power adjustment clause (PPAC) are updated. The factors reflect what RPU assumed for power supply costs that were built into the rates. There is a two quarter lag between the time actual power supply costs come in and the PPAC, if any, is charged to the customers. That is why the new factors are requested to become effective at the beginning of the third quarter. The factors are as follows:

	<u>Current</u>	<u>Proposed</u>
Energy cost factor	1.01497	1.01209 (factors in energy losses)
Demand cost factor	0.00190	0.00186 (converts demand cost to \$/kWh)
Base cost factor	\$0.04202	\$0.04293

## UTILITY BOARD ACTION REQUESTED:

The Board is requested to approve the proposed changes to Purchased Power Adjustment Clause for the Electric Utility, effective June 1, 2004.

  
General Manager

4-22-04  
Date

PURCHASED POWER ADJUSTMENT CLAUSE

**APPLICATION:** Applicable to all rate schedules where there is a kWh charge.

1. The Purchased Power Adjustment Clause will be determined on a quarterly basis with application to the first revenue cycle in the months of January, April, July and October.
2. The Purchased Power Adjustment Clause is calculated by adding an energy cost factor, demand cost factor, and recovery adjustment factor together and subtracting a base factor.
  - a. The energy cost factor is determined by multiplying the estimated unit energy cost of purchased power expressed in \$ per kWh for the next calendar quarter by ~~1.01497~~ 1.01209. The cost of purchased energy may include a factor for an energy cost adjustment from the power supplier.
  - b. The demand cost factor is determined by multiplying the estimated demand cost of purchased power expressed in \$ per kW for the next calendar quarter by ~~0.00190~~ 0.00186.
  - c. The recovery adjustment factor is determined by adding or subtracting previous quarterly energy cost adjustments billed by the power supplier and over recovered or under recovered Purchased Power Adjustment Clause revenues. This amount is divided by estimated retail energy sales for the next quarter.
  - d. All calculations will be carried out to \$.00001 per kWh.
3. The multipliers stated in 2.a. and 2.b. will be adjusted for each new calendar year.
4. The Purchased Power Adjustment Clause will be the amount per kWh calculated in #2 above in excess of ~~\$0.04202~~ \$0.04293. This \$ amount per kWh will be added to each kWh of sales.

Approved by Rochester Public Utility Board:  
Effective Date:

~~March 25, 2003~~ April 27, 2004  
~~April 8, 2003~~ June 1, 2004



## RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve revisions to the Purchased Power Adjustment Clause effective June 1, 2004.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 27<sup>th</sup> day of April, 2004.

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President

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Secretary