

FOR BOARD ACTION

Agenda Item # 11.

Meeting Date: 3/28/06

SUBJECT: Revision to Purchased Power Adjustment Clause and Method of Calculation
(renamed "Power Supply Adjustment")

PREPARED BY: Bryan Blom, Interim Manager of Finance & Accounting

ITEM DESCRIPTION:

RPU's current Purchase Power Adjustment (PPA) method was originally put in place when RPU was a full-requirements member of SMMPA. While changes to the PPA method allow for other power supply sources to be included, it is not optimally designed for this which makes the calculation results cumbersome to audit and verify. Also, the current method lags three months between the end of the three-month evaluation period, when a PPA charge is potentially determined, and the start of the three-month collection period.

We have developed a new method (named the Power Supply Adjustment Clause or PSA) to calculate the required adjustment. It more easily includes power supply costs from all sources. We had Stanley Consultants review the methodology and calculation model and revised it based on their recommendations.

The basic calculation is to compare the planned power supply costs/kwh to the actual power supply costs/kwh. RPU's rates are based on recovery of the planned power supply costs. Whenever actual power supply costs/kwh exceed planned costs, it means rates were not adequate to recover true power supply costs. In that case a PSA charge is necessary in an upcoming quarter. If the opposite is the case, it indicates that rates over-collected power supply costs from customers and that a credit situation exists. While credits will not pass through via customer billings, they will be carried forward indefinitely to offset potential future charges.

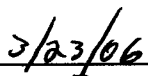
As to the lag, there will be just a one month delay from the end of the three-month evaluation period, when a charge is potentially determined, and the start of the three-month collection period.

UTILITY BOARD ACTION REQUESTED:

The Board is requested to approve the attached Power Supply Adjustment and approve the change of the related reference in the Electric Utility rate tariffs from the Purchase Power Adjustment Clause (PPAC) to the Power Supply Adjustment (PSA).



General Manager



Date

PURCHASED POWER-POWER SUPPLY ADJUSTMENT

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

1. ~~The Purchased Power-Power Supply Adjustment will be determined on a quarterly basis with application to the first revenue cycle in the months of January, February, April, May, July, August and October/November.~~
2. ~~The Purchased Power-Power Supply Adjustment is calculated by adding an energy cost factor, demand cost factor, and recovery adjustment factor together and subtracting a base factor.~~
determined by calculating the average actual cost per kWh of retail power supply from all sources and subtracting the average planned cost per kWh from all sources. All calculations will be carried out to \$.00001 per kWh. Power supply cost includes the cost of purchased power including the power supplier's energy cost adjustments, the cost of fuel for self-generation, and fees for regional power grid services.
 - ~~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 1.01349. 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 kWh for the next calendar quarter by 0.00193.~~
 - ~~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 average planned cost per kWh will be adjusted for each new calendar year.
~~The multipliers stated in 2.a. and 2.b. will be adjusted for each new calendar year.~~
4. The Power Supply Power Adjustment will be the actual amount per kWh calculated in #2 above in excess of the planned amount per kWh calculated in #2 above. This \$ amount per kWh will be added to each kWh of sales.
~~The Purchased Power Adjustment Clause will be the amount per kWh calculated in #2 above in excess of \$0.04248. This \$ amount per kWh will be added to each kWh of sales.~~

Approved by Rochester Public Utility Board:
March 28, 2006
Effective Date:

~~June 28, 2005~~

~~July 1, 2005~~ April 4, 2006



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the Common Council of the said City is requested to approve the revisions to the Purchased Power Adjustment Clause and method of calculation under the new title of "Power Supply Adjustment."

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 28th day of March, 2006.

President

Secretary