

FOR BOARD ACTION

Agenda Item # 14

Meeting Date: 5/29/07

SUBJECT: Elimination of 10% Surcharge on Rural Electric Customers

PREPARED BY: Sue Parker, Director of Corporate Services

ITEM DESCRIPTION:

A customer whose service is taken outside the Rochester City limits is subject to a 10% surcharge on their bills (excluding charges computed under the Power Supply Adjustment). The surcharge on rural electric customers being served by Rochester Public Utilities (RPU) has been in existence since the early 1980's and applies to all classes of customers. Currently approximately 400 customers are subject to the surcharge and it generates about \$65,000 annually for the electric customers.

The original premise to imposing the surcharge was:

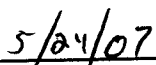
1. To allow those outside the City to pay its proportionate share in the event General Obligation bonds were issued for utility purposes (taxes cannot be imposed outside the city limits);
2. To encourage the customers to be annexed into the City limits;
3. The cost of service to the rural customers was higher due to the distance from the city limits to the rural area; and
4. The surcharge was established prior to the utility using cost of service rates.

RPU is in the process of implementing a new Customer Care System in SAP. This implementation has lead RPU staff to look at its existing processes and pricing strategies to convert them to the new system. Staff has been encouraged to ask questions about the existing pricing strategies and processes to improve upon our current structure.

One of the many processes and pricing strategies reviewed is the 10% surcharge. In order to continue to invoice the business partners for the surcharge a new pricing structure would need to be developed for each class of customers and would be labor intensive to maintain going forward as rate changes occurred. Several options were evaluated including, "why are we charging the surcharge again?"

The customers whose service is taken outside the Rochester City limits are paying the cost of the service through the existing pricing structure. Recent issuance of Electric Revenue Bonds are reflected in these customer rates. The cost of service rate structures should compensate the utility for the cost of providing the electricity, allocate the costs fairly to all classes of customers, and allow for a fair rate of return on investment. In this case the current customer rate classes fully compensate the utility for all its costs prior to applying the surcharge.


General Manager


Date

ROCHESTER PUBLIC UTILITIES

FOR BOARD ACTION

Agenda Item # 14

Meeting Date:

5/29/07

Staff recommends eliminating the 10% Electrical Surcharge that is imposed on Customer's whose service is taken outside of the City limits.

UTILITY BOARD ACTION REQUESTED:

Authorize staff to give notice of the proposed revenue adjustment to start the 30 day public comment period.

Approval of the elimination of the rates and approval of the resolutions for modified rate schedules will occur at the June board meeting.

General Manager

Date