

FOR BOARD ACTION

Agenda Item # 6

Meeting Date: 6/27/07

SUBJECT:

Approval of the Elimination of 10% Surcharge on Rural Electric Customers

PREPARED BY:

Sue Parker, Director of Corporate Services

ITEM DESCRIPTION:

At the last Utility Board meeting, staff presented an elimination of the 10% Surcharge on Rural Electric Customers. The Board's preliminary consensus was to eliminate the surcharge. A notice of the proposed revenue adjustment was provided to the public via the paper of record.

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.

The customers whose service is taken outside the Rochester City limits are paying the cost of the service through the existing pricing structure. Recent of 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.

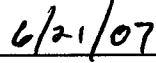
Staff recommends eliminating the 10% Electrical Surcharge that is imposed on Customer's whose service is taken outside of the City limits.

UTILITY BOARD ACTION REQUESTED:

1. Approve and recommend to the City Council an elimination of the 10% surcharge on rural electric customers to all customer classes effective July 3, 2007.



General Manager



Date

ROCHESTER PUBLIC UTILITIES

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2. Approve a resolution for the following existing and modified rate schedules to be effective July 3, 2007.

Residential Service (RES)
Residential Service-Dual Fuel (RES-DF)
Residential-High Efficiency HVAC (RES-HEF)
General Service (GS)
General Service-High Efficiency
General Service Time-Of-Use (GS-TOU)
Medium General Service (MGS)
Medium General Service-High Efficiency
Medium General Service Time-Of-Use (MGS-TOU)

Large General Service (LGS)
Large Industrial Service (LIS)
Interruptible Service (INTR)
City Street Lighting (CSL)
Traffic Signals (TS)
Highway Lighting (HL)
Security Lighting (SL)
Civil Defense Sirens (CDS)

General Manager

Date



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 elimination of the 10% surcharge on rural electric customers to all customer classes effective July 3, 2007.

BE IT FURTHER RESOLVED that the Board approves the following existing and modified rate schedules to be effective July 3, 2007.

Residential Service (RES)
Residential Service-Dual Fuel (RES-DF)
Residential-High Efficiency HVAC (RES-HEF)
General Service (GS)
General Service-High Efficiency
General Service Time-Of-Use (GS-TOU)
Medium General Service (MGS)
Medium General Service-High Efficiency
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Large General Service (LGS)
Large Industrial Service (LIS)
Interruptible Service (INTR)
City Street Lighting (CSL)
Traffic Signals (TS)
Highway Lighting (HL)
Security Lighting (SL)
Civil Defense Sirens (CDS)

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 26th day of June, 2007.

President

Secretary