

# Agenda Report

**DATE:** April 9, 2001

**TO:** City Council  
**THROUGH:** Deregulation Committee

**FROM:** City Manager

**SUBJECT: Amendment to Light and Power Rate Ordinance to Include  
Temporary Energy Conservation Incentive Mechanism (ECIM)**

## **RECOMMENDATION**

It is recommended that the City Council direct the City Attorney to prepare an amendment to the Light and Power Rate Ordinance of the Pasadena Municipal Code to include a temporary Energy Conservation Incentive Mechanism (ECIM) through October 2001. The objective of the ECIM program is to reduce electrical consumption in Pasadena by 10-20% this summer on a voluntary basis through new rate incentives.

## **BACKGROUND**

California is experiencing a severe energy shortage that may result in statewide Stage 3 power emergencies this summer, and possibly the next. In order to prevent a system-wide failure during such emergencies, the California Independent System Operator (ISO) may require Pasadena Water and Power (PWP) to impose rolling blackouts on its customers, such as those experienced on March 19 and 20 this year. The energy shortage has also greatly increased wholesale energy market prices that may adversely impact PWP customer rates.

PWP is aggressively pursuing a number of strategic programs to reduce these impacts on Pasadena customers:

- Intensified energy conservation programs

- Negotiating curtailable load agreements with customers
- Back-up generator installation assistance and usage agreements
- Negotiating more favorable terms with the ISO for curtailments
- Expanding or repowering local generation
- Fuel and purchased power cost hedging

These programs will provide direct benefit to PWP customers through lower energy costs and higher reliability. Furthermore, PWP will leverage these programs in negotiating with the ISO and other agencies for favorable treatment with respect to contract terms, permitting, environmental credits, and funding of reliability-enhancing projects.

The recommended Energy Conservation Incentive Mechanism (ECIM) is an experimental rate program that will be offered to customers who voluntarily reduce consumption from historical levels. Participating customers will receive an energy credit (or discount) for the amount of energy conserved. The energy saved by this program will mean that PWP can avoid purchasing or generating that energy at a significantly higher cost, thereby lowering costs and rates for all customers.

As the ECIM implementation may require billing system software modifications and/or significant manual computation and data entry, program details are subject to modification. However, to the extent practical, feasible, and economic, the ECIM ordinance will incorporate the following design:

- Participating customers will receive a credit of 10¢/kWh for the amount of energy conserved, calculated as the difference between "Baseline Usage" and the actual metered usage for the current period
- For this purpose, Baseline Usage will be defined as:
  - The prior year's (or average of prior two-years') usage for same billing period, less the energy savings associated with any other PWP-sponsored energy conservation programs the customer participates in, or has implemented during the last two years
- Baseline Usage may be adjusted for commercial customers that have expanded or reduced the scope of their business, subject to review by PWP General Manager
- A minimum energy savings threshold of 5% of Baseline Usage is required to be eligible for a credit
- The credit will be applied directly on the customer bill

- The credit amount will be treated as a reduction in ECAC revenues for accounting purposes

The Governor of California has proposed a similar plan for California Public Utilities Commission (CPUC) regulated customers called the 20/20 Plan. Under this plan, only those customers that reduce consumption by 20% will benefit with a 20% discount. PWP will take advantage of this program to the extent that it is available to municipal utilities (which is anticipated) and funded (which it currently is not).

Because wholesale energy costs will range from 20-50¢/kWh during the period this program applies, all PWP customers will benefit from a net reduction in purchased power costs. Even though the customer credits will reduce ECAC revenues, they will not increase rates or costs for any customer.

### **FISCAL IMPACT**


The Energy Conservation Incentive Mechanism credits will reduce purchased energy costs, retail energy consumption, and electricity sales and associated revenues. The exact impact of this program will depend entirely on customer response to the incentive. Participating customers will benefit from 5%-25% reduction in bills, and non-participating customers will benefit from lower overall procurement costs that may reduce the ECAC by 3%-10% from what it would be without the program.

Assuming that a 10% average system-wide load reduction results from this program, annualized savings in energy procurement will be about \$30 million per year, and result in reducing the average ECAC rate for all customers. The reduced sales will cause base rate revenues to decline at an annualized rate of \$4 million per year, PBC revenues at \$300,000/year, and ECAC revenues will decline by \$11.8 million, plus the avoided \$30 million in purchased power costs.


It is estimated that implementation of the ECIM may cost up to \$100,000 for software modifications and/or staffing to support the additional workload.

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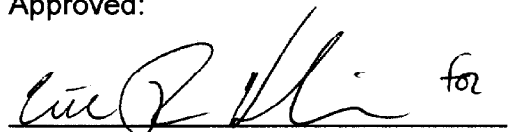
Respectfully submitted,

  
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