

Agenda Report

July 12, 1999

TO: CITY COUNCIL
THROUGH: DEREGULATION COMMITTEE

FROM: CITY MANAGER

SUBJECT: Update of Light and Power Fund Estimate of Stranded Investment and Long-Term Financial Plan

RECOMMENDATION

This agenda report is for information only.

BACKGROUND

The Water and Power Department's ("Department") estimate of its stranded investment, which was presented to City Council on June 15, 1997, has been updated to reflect a revised electricity market forecast and modifications in the cost projections associated with Intermountain Power Project ("IPP") and Palo Verde Nuclear Generating Station ("Palo Verde"). Additionally, the Light and Power Fund Financial Plan ("Financial Plan") has been updated to include the new stranded investment estimate and the recommended FY 2000 budget. A stranded investment summary is shown as Attachment 1 and the revised Financial Plan, along with last year's Financial Plan, are shown as Attachments 2 and 3, respectively.

The present value of the Department's stranded investment is now estimated at \$117.7 million (1999\$). The change from last year's estimate of \$125.6 million is the result of a higher near-term electricity market forecast, changes in IPP and Palo Verde cost projections, and the change from 1998 to 1999 dollars. The following chart summarizes the change from the 1998 estimate of stranded investment. Details of the stranded investment analysis are shown in Attachment 4.

Stranded Investment Changes (\$000)	
1998 SI Estimate (1998\$)	125,602
Market Forecast Update	-20,300
IPP & PV Cost Changes	5,789
Change from 1998\$ to 1999\$	6,666
1999 SI Estimate (1999\$)	117,757

The market forecast used to estimate stranded investment was developed by the same firm that produced the last two market forecasts (Henwood Energy Services, Inc.), and the same analysis methodology was used to calculate the present value of the stranded investment. The increased market price forecast can be attributed to the inclusion of additional generator profits in near-term energy market bids. The generators are now deregulated and able to charge higher prices during periods when available capacity diminishes, typically during summer months. A high/low market graph and a graph of the new market forecast, as compared to those of 1997 and 1998, are shown in Attachment 5. The corresponding high/low stranded investment projections are shown in Attachment 6.

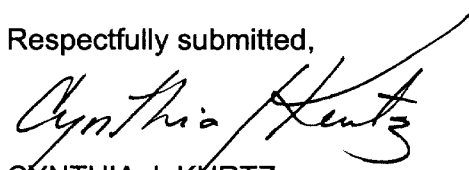
Even though the stranded investment estimate is lower than last year's estimate, staff proposes no rate action at this time. This is because i) the Financial Plan collection rate is still within the bandwidth of stranded cost estimates, and ii) the Financial Plan still requires the revenue from the temporary stranded investment surcharge and competition transition charges (CTC) through October 2001 to provide competitive rates. At this rate, through the combination of operational efficiency improvements, staff reductions, and the collection of the stranded investment surcharge, the Financial Plan could fully fund the Reserve for Stranded Investment approximately nine months ahead of schedule.

Another consideration in keeping the current rates at this time, and in favor of ending the stranded investment surcharge ahead of schedule, is that the California investor owned utilities have already proposed to eliminate their CTC ahead of schedule. San Diego Gas and Electric Company has filed with the California Public Utilities Commission for the elimination of its CTC this year, and Southern California Edison Company and Pacific Gas and Electric Company are also expected to eliminate their CTC prior to 2001. Upon the elimination of these CTCs, Pasadena's electric customers would have much higher electric rates than those of the investor owned utilities.

FISCAL IMPACT

This agenda report is for information only. The Financial Plan is consistent with the proposed FY 2000 Light and Power Fund budget and no rate action is recommended.

Respectfully submitted,



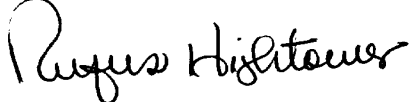
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