

Ordinance Fact Sheet

March 26, 2001

TO: City Council

FROM: City Manager

SUBJECT: AMENDMENT TO THE LIGHT AND POWER RATE ORDINANCE TO REPLACE THE ENERGY COST ADJUSTMENT CHARGE AND DIRECT ACCESS ENERGY CREDIT WITH THE FOLLOWING CHARGES: ENERGY CHARGE; TRANSMISSION ACCESS CHARGE; AND DIRECT ACCESS TRANSITION CHARGE.

TITLE OF PROPOSED ORDINANCE:

Amendment to the Light and Power Rate Ordinance, Chapters 13.04.095(c), 13.04.096, and 13.04.170 of the Pasadena Municipal Code, to replace the Energy Cost Adjustment Charge (ECAC) and Direct Access Energy Credit (DAEC) with the following charges: Energy Charge; Transmission Access Charge (TAC); and Direct Access Transition Charge (DATC).

PURPOSES OF THE ORDINANCE:

The replacement of the current Energy Cost Adjustment Charge (ECAC) with the proposed energy, transmission access, and competition transition charges represents a comprehensive overhaul of the traditional energy cost pass-through mechanism. A description of each of these charges may be found in Attachment I. The proposed methodology reflects fundamental changes affecting the electric utility industry, such as open-access transmission and retail deregulation. Implementation of the proposed charges will strategically position Pasadena Water and Power to maximize benefits and accommodate future changes. Furthermore, it will provide a mechanism to credit full service retail customers with the revenues earned from wholesale sales of Pasadena's generation assets.

Unbundling of transmission costs and revenues is a critical necessity. All investor-owned and many municipal utilities have already done this as a result of the Federal Energy Regulatory Commission's (FERC) Orders 887 and 888, which required the separation of utility energy "merchant" functions from regulated transmission functions.

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Adopting FERC's transmission rate-making methodology will also position Pasadena Water and Power to collect all costs associated with transmission, including in-lieu taxes, in the event Pasadena Water and Power opts to join the ISO or other regional transmission operator. This could have the effect of reducing transmission costs for all Pasadena customers.

Changing the ECAC to adopt a Revenue Credit mechanism will help mitigate the need for retail rate increases. Historically, Pasadena Water and Power customers' exposure to high market prices for power has been limited by the ability to generate power locally at reasonable costs. However, as a result of high costs of natural gas and environmental limitations on generator usage, the local power plants are now used primarily to sell capacity into ISO markets, leading to increases in both Purchased Power costs and Wholesale Net Revenues. The proposed Revenue Credit mechanism will mitigate rate increases for Full Service Customers by partially or fully offsetting increased procurement costs with increased wholesale revenues. Under the proposed rate mechanism, Direct Access customers will not benefit from the Wholesale Revenue Credit.

The proposed inclusion of General Fund Transfers (GFT) in the formula rates is a strategic change with many benefits. Due to market volatility and potential loss of retail sales due to Direct Access, the annual energy sales revenues may fluctuate as much as \$50 million from budgeted amounts, leaving Pasadena Water and Power with an associated \$3 million uncertainty in the GFT revenue requirements. By collecting this revenue on a formula basis in the energy rate, this uncertainty will not adversely affect PWP's working cash or require regular revisions to the base rate charges. Furthermore, by including the GFT associated with transmission revenues in the transmission rate, these costs would be included in the state-wide roll in should Pasadena Water and Power elect to turn its transmission over to the ISO or other regional power grid.

In summary, these changes are necessary for Pasadena Water and Power to properly calculate and collect all energy and transmission revenue requirements as appropriate for both Full Service and Direct Access customers, and will also better position Pasadena Water and Power to maximize any benefit from turning over control of its transmission to the ISO, should that occur in the future.

**COMPLIANCE WITH ARTICLE 13D OF THE CALIFORNIA CONSTITUTION
(PROPOSITION 218):**

The ordinance was reviewed for compliance with Article 13D of the California Constitution (Proposition 218). The ordinance makes an adjustment to the formula used to calculate the variable component of the electric rates charged to the Department's customers, which is part of the Department's electricity fee. Because the Constitutional provisions explicitly exempt electricity fees, the procedural requirements imposed by Prop. 218 on other types of fees, charges, assessments or property taxes assessed as in incident of property ownership do not apply to the adoption of the ordinance. ("For purposes of this articles, fees for the provision of electrical or gas service shall not be deemed charges or fees imposed as an incident of property ownership." Cal. Const. Art. 13D, sec. 3(b).)"

REASONS WHY LEGISLATION IS NEEDED:

Charges for electrical energy must be prescribed by ordinance pursuant to Charter Section 1403.

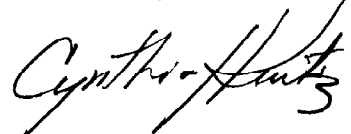
PROGRAMS, DEPARTMENTS OR GROUPS AFFECTED:

All customer classes taking service from Pasadena Water and Power will be affected.

FISCAL IMPACT

Although significant elements of current rates are moved between the base rate and ECAC, the intent of this amendment is to appropriately reallocate costs to minimize necessary rate increases. Without these changes, ECAC rates will increase dramatically.

Respectfully submitted,



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