

Agenda Report

To: CITY COUNCIL

Date: January 15, 1998

From: CITY MANAGER

Subject: AMENDMENT TO THE LIGHT AND POWER RATE ORDINANCE, CHAPTER 13.04 OF THE PASADENA MUNICIPAL CODE, TO AUTHORIZE COLLECTION OF THE STRANDED INVESTMENT SURCHARGE BY CUSTOMER CONTRACT.

RECOMMENDATION:

It is recommended that the City Council adopt the accompanying ordinance as a further step in preparing the City's electric utility for success in the forthcoming competitive environment. The ordinance will authorize the general manager of the Water and Power Department to enter into contracts with retail electric customers for payment of the stranded investment surcharge ("SIS") at a different time than ordinarily due and payable provided that such contract payments are calculated to make the Light and Power Fund financially indifferent to their timing.

BACKGROUND:

The City Council approved the SIS for all retail electric customers this past November. Under this ordinance, each retail electric customer pays a fixed \$0.0137 per kWh delivered to the customer until July 1, 2002. The proposed ordinance would assist the electric utility in its efforts to retain customers as the phase in of direct access begins by allowing customers the flexibility of entering into a contract to establish an individual SIS payment schedule. Thus, rather than making its SIS payment based on a kWh delivered basis, this ordinance will permit a customer to adjust the timing of its SIS payments according to its needs. Contractual SIS payments would be calculated so as to make the Light and Power Fund indifferent to the timing of the receipts.

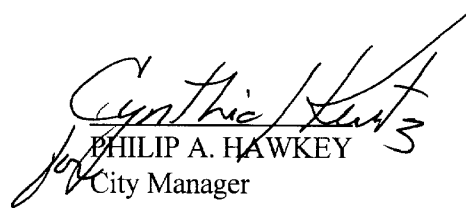
In exchange for such flexibility, the customer must commit to remain an energy requirements customer of the utility for the term of the contract and to furnish a performance bond or suitable equivalent financial guarantee. This contract arrangement will ensure that commercial, industrial and institutional customers meet their full share of stranded investment obligation while allowing them the option of timing payments to better suit their business cash flow needs.

FISCAL IMPACT:

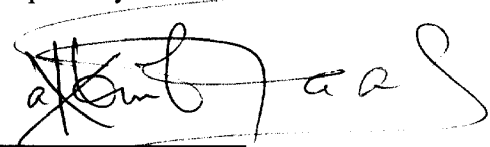
The timing of the receipt of the SIS will be changed according to the terms of the contract. An estimated seven (7) percent interest rate per annum will be charged to compensate for the changes in payment timing. The actual interest rate charged will be equal to the rate of return on the reserve for stranded investment plus one (1) percent for administrative fees. The rate will be reviewed on a quarterly basis. The minimum interest rate per annum will be six (6) percent. The contract payment will be calculated so as to make the Light and Power Fund indifferent to such timing. Payment security will be required. Due to these factors, no fiscal impacts are expected.

There is a positive fiscal impact resulting from retaining customers who would otherwise choose an alternate energy supplier when eligible for direct access; however, such fiscal impact cannot be accurately estimated at this time.

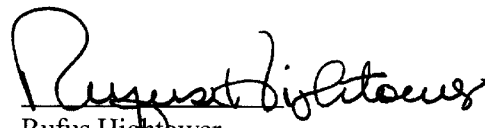
Respectfully submitted,


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