

# Agenda Report

June 15, 1998

**TO:** ATTENTION DEREGULATION COMMITTEE  
CITY COUNCIL

**FROM:** CITY MANAGER

**SUBJECT:** UPDATE OF WATER AND POWER STRANDED INVESTMENT  
AND FINANCIAL PLAN

## **RECOMMENDATION**

This agenda report is for information only.

## **BACKGROUND**

The Water and Power Department's estimate of its stranded investment, which was presented to City Council on May 29, 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 1999 budget. A stranded investment summary is shown in Attachment 1, the revised Financial Plan, along with last year's Financial Plan are shown in Attachments 2 and 3, respectively. A more detailed stranded investment summary is presented in Attachment 4.

The present value of the Water and Power Department's stranded investment is now estimated at \$125.6 million (1998\$). The change from last year's estimate of \$156.3 million is the result of a higher electricity market forecast (\$18.2 million) and future savings from the Palo Verde Debt Restructuring Plan (\$12.5 million). However, this debt restructuring plan required an additional \$12.1 million in debt service to be pre-paid through 2002, therefore the net change in reserve funds needed to solve the stranded investment problem is only \$18.6 million (12%) less than last year's target of \$156.3 million. The following chart summarizes the change from the FY 1998 estimate of stranded investment.

<b>Stranded Investment Changes (1998 \$Millions)</b>	
FY 1998 Stranded Investment Estimate	\$156.3
Less Market Forecast Update	(18.2)
<b>Subtotal</b>	<b>\$138.1</b>
Less Palo Verde Debt Restructuring	(12.5)
<b>FY 1999 Stranded Investment Estimate</b>	<b>\$125.6</b>

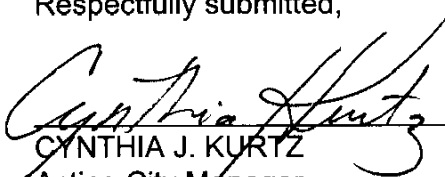
The market forecast was developed by the same firm that produced last year's market forecast, and the same analysis methodology was used to calculate the present value of the stranded investment. The change in the market forecast can be attributed to increases in natural gas costs and an increase in the number of generating units that are expected to be retired and replaced with new generating capacity. A graph of the new market forecast as compared to last year's forecast is shown in Attachment 5 and a high-nominal-low market graph is shown in Attachment 6.

Even though the stranded investment estimate is lower than last year's estimate, staff recommends no rate action at this time because the Financial Plan still requires the revenue from the temporary stranded investment surcharge into FY 2001. The Financial Plan is almost a year ahead of schedule, but there are still four years of uncertainty (FY1999-2002) left to shape the post 2002 market, upon which the stranded investment is based. Staff recommends that no adjustment to the temporary stranded investment surcharge be made until a minimum of two years of data are available for trend analysis.

### **FISCAL IMPACT**

This agenda report is for information only. The Financial Plan is consistent with the proposed FY 1999 Light and Power Fund budget and no rate action is recommended.

Respectfully submitted,

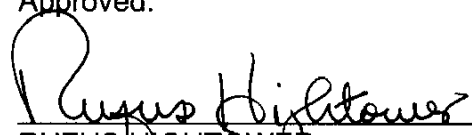
  
CYNTHIA J. KURTZ  
Acting City Manager

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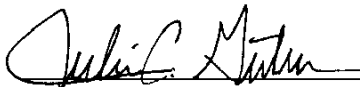
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