

Agenda Report

DATE: September 13, 1999

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBJECT: **Rate Restructuring for Pasadena Water and Power**

RECOMMENDATION

For Information only.

BACKGROUND

At its August 25, 1999 meeting, the Deregulation Committee requested staff prepare an Agenda Report for Council regarding the proposed Rate Restructuring Plan (copy attached) and its policy issues.

Staff is proceeding with the development of a comprehensive rate-restructuring plan for electrical rates, because the current rate structure is fundamentally flawed in its ability to properly allocate costs in a deregulated environment. This is mainly because:

1. There are intra and inter group subsidies;
2. The present rate structure will not collect the Water and Power Department ("Department") costs, after the elimination of the Competition Transition Charge, if a customer were to change energy suppliers; and
3. The present rate components do not match the marketplace or they over/under emphasize the wrong components thereby increasing the risk that revenues would not match the Department's costs with different suppliers.

The policy issues involved in the proposed rate-restructuring plan are: (1) cost shifting; (2) facility charge vs. energy charge; (3) energy conservation; (4) subsidies; and (5) the timing of the rate adjustments.

The Department's proposed rate restructuring plan will not contain any cost shifting between rate groups. It will: (1) emphasize a facility charge and de-emphasize the energy charge; (2) depend more on the marketplace to encourage conservation as opposed to rates; (3) not provide subsidies through rates but provide council other vehicles to provide the approved support; and (4) time the rate adjustment to become effective at the elimination of the Competition Transition Charge (CTC).

Cost shifting must be eliminated; otherwise, it could make one group non-competitive in a deregulated environment. Emphasis on a facility charge is necessary to properly allocate the cost to others for their use of the Department facilities. Environmental questions could be raised because the rate structure depends more on marketplace to encourage conservation. The Department is expected to provide a system-wide average rate reduction of 30% or more at the elimination of the CTC. Therefore, the ideal time to make the proposed rate adjustments would be with the elimination of the CTC. At that time, it is expected that all cross subsidies could be removed, with customers receiving different rate reductions.

Fiscal Impact

There will be no net increase or decrease in revenues to the Department because of the restructuring of rates. It will however position the Department to collect its costs based on the infrastructure used and help retain its customers.

Prepared by:



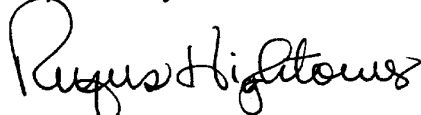
Jay Panzica
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Respectfully submitted,



Cynthia J. Kurtz
City Manager

Approved by:



Rufus Hightower
General Manager
Water and Power Department