

COUNCIL ACTION FORM

SUBJECT: REVISIONS TO ELECTRIC ENERGY COST ADJUSTMENT (ECA)

BACKGROUND:

Section 28, Division 1 of the City of Ames Municipal Code covers the general conditions for electric rates and charges. Section 28.102, titled Energy Cost Adjustment reflects the method used to adjust rates caused by fluctuations in the fuel cost. This section is necessary to avoid constant changes to the City Electric rates.

The existing language was originally included in the Municipal Code in 1985 and was last modified November 12, 2012. The current language functioned well when the City purchased coal, because coal was contracted to the City on a “delivered basis”, meaning that all delivery costs were included in the base fuel cost. **The transition to natural gas results in daily price volatility for this fuel and its delivery which now requires a change in how the Energy Cost Adjustment is calculated. In order to correctly account for the fluctuations in natural gas and its separated delivery costs, the language of Section 28.102 must be updated to account for this change.**

It is worth noting that the ECA is a “look back” calculation, meaning that the adjustment is calculated using costs that were charged during the previous 12 months. By adopting this revision to the ordinance, the ECA will be updated going forward. To properly calculate the ECA, all costs for natural gas and its delivery incurred to date, will be captured in the new ECA calculation.

In addition, since the time the ECA was first adopted, other cost variables have been included in the ECA calculation such as transmission credits, the cost of wind energy, and energy market purchases and sales. The proposed Code revision does not change the overall rate methodology, but updates the language to align with current and planned future operating conditions.

As previously report to Council, the natural gas conversion is expected lead to fuel costs that are higher than coal and result in an increased ECA of around 4% higher than the current rate. This higher cost of natural gas is offset by improved ability to purchase power off the grid when prices are favorable, and lower long-term capital costs related to air quality making the conversion the best long-term option for our customers.

ALTERNATIVES:

1. Approve first passage of the revision to the Electric Rate Ordinance by deleting Section 28.102 in its entirety and replacing it with the attached language.

2. Deny the revision and begin work on an Electric Rate increase.

MANAGER'S RECOMMENDED ACTION:

The Energy Cost Adjustment is the preferred method to capture certain variable costs that are difficult to project in rates. Without the ability to adjust to the every changing energy market, rate making will be more difficult and will likely lead to more over and under collecting of revenue.

Therefore, it is the recommendation of the City Manager that City Council adopt Alternative No. 1, thereby approving first passage of the revision to the Electric Rate Ordinance.

It should be noted that, during budget hearings, the staff emphasized that while there will be no electric rate increase in FY 2016/17, because of the increased cost for natural gas, customers might see up to a 4% increase with their electric bills due to a higher ECA.

The current Section language is in red and the proposed language is in blue. Staff is proposing striking all of the existing language in the Section (in the red ~~strikethrough~~) and replacing it with new language found in blue below.

Sec. 28.102. ENERGY ~~COST ADJUSTMENT~~ BILLING (ENERGY UNIT RATE, ENERGY COST ADJUSTMENT, & ENERGY RATE ADJUSTMENT).

~~The net monthly billing based on rates will be increased or decreased by an amount corresponding to the increase or decrease in the average cost to the Ames Municipal Electric System for power plant fuel in the preceding month. The incremental charge will be computed by multiplying the number of kilowatt hours used by the customer times the difference between the base fuel cost and the average fuel cost of the preceding month. The base fuel cost is \$0.0495 per kilowatt hour. The average fuel cost shall be determined by multiplying the unit fuel cost in the previous month times the quantity of fuel used in the twelve (12) month period prior to the previous month divided by the actual kilowatt hour sales during the same period.~~

The net monthly billing based on rates will be increased or decreased according to the Energy Unit Rate and Energy Cost adjustment, calculated as of the prior month. For purposes of this section, the following definitions apply:

“Energy Unit Rate” means the portion of the retail electric rates that produces revenue to offset fuel and electrical energy related expenses. The Energy Unit Rate for all retail rate schedules shall be \$0.0495 per kilowatt-hour (kWh).

“Energy Cost Adjustment (ECA)” means the amount the customer’s billed energy charges are adjusted to compensate for variations in the cost of energy to the Ames Municipal Electric System. The ECA shall be adjusted monthly for variations in the utility’s net cost of energy associated with electrical energy purchases/sales, transmission expenses/revenues, and adjustments; fuel purchases/sales, delivery expenses, and adjustments; and fuel waste disposal expenses/revenues and adjustments. The ECA shall be determined by multiplying the customer’s billed energy consumption (kWh) times the Energy Rate Adjustment (\$/kWh).

“Energy Rate Adjustment” means the Energy Unit Rate (\$/kWh) subtracted from the quotient of the Utility’s net cost of energy (\$), as defined in the ECA, invoiced for the prior twelve-month period divided by the total retail energy (kWh) sales for the corresponding twelve-month period.

(Ord. No. 2921, Sec. 2, 4-9-85; Ord. No. 2975, Sec. 1, 5-19-87; Ord. No. 2977, Sec. 1, 6-9-87; Ord. No. 3199, Sec. 1, 9-24-92; Ord. No. 4130, 11-27-12)

ORDINANCE NO.

AN ORDINANCE TO AMEND THE MUNICIPAL CODE OF THE CITY OF AMES, IOWA, BY REPEALING CHAPTER 28, SECTION 102 AND ENACTING A NEW CHAPTER 28 SECTION 102 THEREOF, FOR THE PURPOSE OF ENERGY COST ADJUSTMENT; REPEALING ANY AND ALL ORDINANCES OR PARTS OF ORDINANCES IN CONFLICT TO THE EXTENT OF SUCH CONFLICT; AND ESTABLISHING AN EFFECTIVE DATE.

BE IT ENACTED, by the City Council for the City of Ames, Iowa, that:

Section One. The Municipal Code of the City of Ames, Iowa shall be and the same is hereby amended by repealing Chapter 28, Section 102 and enacting a new Chapter 28, Section 102 as follows:

“Sec. 28.102. ENERGY BILLING (ENERGY UNIT RATE, ENERGY COST ADJUSTMENT, & ENERGY RATE ADJUSTMENT).

The net monthly billing based on rates will be increased or decreased according to the Energy Unit Rate and Energy Cost Adjustment, calculated as of the prior month. For purposes of this section, the following definitions apply:

“Energy Unit Rate” means the portion of the retail electric rates that produces revenue to offset fuel and electrical energy related expenses. The Energy Unit Rate for all retail rate schedules shall be \$0.0495 per kilowatt-hour (kWh).

“Energy Cost Adjustment (ECA)” means the amount the customer’s billed energy charges are adjusted to compensate for variations in the cost of energy to the Ames Municipal Electric System. The ECA shall be adjusted monthly for variations in the utility’s net cost of energy associated with electrical energy purchases/sales, transmission expenses/revenues, and adjustments; fuel purchases/sales, delivery expenses, and adjustments; and fuel waste disposal expenses/revenues and adjustments. The ECA shall be determined by multiplying the customer’s billed energy consumption (kWh) times the Energy Rate Adjustment (\$/kWh).

“Energy Rate Adjustment” means the Energy Unit Rate (\$/kWh) subtracted from the quotient of the Utility’s net cost of energy (\$), as defined in the ECA, invoiced for the prior twelve-month period divided by the total retail energy (kWh) sales for the corresponding twelve-month period.
(Ord. No. 2921, Sec. 2, 4-9-85; Ord. No. 2975, Sec. 1, 5-19-87; Ord. No. 2977, Sec. 1, 6-9-87; Ord. No. 3199, Sec. 1, 9-24-92; Ord. No. 4130, 11-27-12).”

Section Two. All ordinances, or parts of ordinances, in conflict herewith are hereby repealed to the extent of such conflict, if any.

Section Three. This ordinance shall be in full force and effect from and after its passage and publication as required by law.

Passed this _____ day of _____, _____.

Diane R. Voss, City Clerk

Ann H. Campbell, Mayor