City of Grand Island

Tuesday, November 13, 2007
Council Session

Item F7

#9148 - Consideration of Amending City Code Chapter 15 Relative to Power Cost Adjustment

Staff Contact: Gary R. Mader;David Springer;Wesley Nespor

Council Agenda Memo

From: Gary R. Mader, Utilities Director
                   David Springer, Finance Director

Meeting: November 13, 2007

Subject: Power Cost Adjustment

Item #'s: F-7

Presenter(s): Gary R. Mader, Utilities Director

Background

Platte Generating Station has been out of service through the month of October in order to perform a major inspection and overhaul of the turbine/generator, boiler and other power plant equipment. Major overhauls are scheduled in the fall and/or spring months, during periods when regional electric demand is at a minimum. With Platte Generating Station not available for the City's electric supply, power is purchased from the regional electric grid via the 115,000 volt transmission interconnections in the City's system, or power may be generated by the Burdick Station Power Plant. In the low electric demand periods of spring and fall, electric purchase from the regional electric grid is usually less expensive than operating the gas or oil fired generation at Burdick Station. And that has been the case for this Platte Generating Station outage. But even during this low electric demand period, purchased power prices during the Platte Generating Station maintenance outage averaged approximately double the price normally incurred for electric power supply using the Utility Department generators.

Discussion

The Electric Rate Codes include a Power Cost Adjustment (PCA). The PCA provides a method to adjust customer electric billings as variations in monthly power supply costs occur. It is based on a six month rolling average of monthly power costs as stated in Section 15-70 of the Grand Island City Code. If that six months average cost is above 15 mils ($0.015) per kilowatt hour, the customer's electric bill includes an adder to recover the difference between the base amount (15 mils) and the actual power supply cost. A copy of that code section is attached for reference.

The highest monthly electric power costs for the City usually occur in the summer months when the 100 megawatt (MW) capacity of PGS is not able to meet electric peak

demands of 160 MW or more. Power purchases are made from the regional electric grid or the peaking generators at Burdick Station are operated to meet summer electric demand. As the higher cost summer months' power costs work into the Power Cost Adjustment, the PCA generally increases each month into the fall and early winter, and then lessens through the remainder of the year until the higher summer costs occur again.

This year though, the outage of PGS for the entire month of October, and resulting higher power supply costs would drastically alter that normal pattern, and would raise the PCA well above historic norms for the Electric Department's customers as the high October power costs become part of the six month rolling average. This spike would be unexpected and likely unplanned for by our customers, and would raise their electric bills substantially; in the range of 5 – 7% for the six month period which includes the October power costs.

In order to avoid this situation, Finance and Utility staff reviewed the PCA computation mechanism included in Section 15-70. The PCA spike can be avoided by specifically setting the October 2007 power price at a more normal level. It is recommended that, for the purpose of computing the PCA, the average power cost for October 2007 be specifically set at the average power cost for the six months preceding the PGS maintenance outage, at 22.14 mills ($0.02214) per kilowatt hour. The actual average power cost for October was 45.63 mils ($0.04563). With the average power cost for October set at a "normal" level, the PCA computations for the following six months, through March 2008, will be nearer previous years' levels. Since the PCA is part of the City Code, an Ordinance is required to alter the stated PCA computation method.

Alternatives

It appears that the Council has the following alternatives concerning the issue at hand. The Council may:

1. Move to approve
2. Refer the issue to a Committee
3. Postpone the issue to future date
4. Take no action on the issue

Recommendation

City Administration recommends approval of Ordinance No. 9148 setting the October 2007 power cost for purposes of computing the PCA at 22.14 mils per megawatt hour.

Sample Motion

Move to approve Ordinance No. 9148.

Division 6. Power Cost Adjustment

§15-70. Power Cost Adjustment

The rates set out in this chapter are predicated upon a base power cost of 15.00 mills per kilowatt-hour. When the City's cost of energy per kilowatt-hour shall temporarily be greater than 15.00 mills per kilowatt-hour, there shall be added to the consumer's monthly charge for electricity used; an amount equal to the number of kilowatt-hours used during the month to which the consumer's charge applies, multiplied by the amount by which the cost of energy for kilowatt-hour shall be greater than 15.00 mills per kilowatt-hour.

Cost of energy per kilowatt-hour as determined for any month shall be applicable to all charges rendered to consumers after the last day of the following month, without any City Council action.

The cost of energy per kilowatt-hour applied to the consumer's monthly charge shall be an average of the previous six-months cost of energy per kilowatt-hour.

If a permanent increase in the contract cost of energy to the City occurs, beginning with the month that the cost increase becomes effective, the six-month average of the cost of energy per kilowatt-hour may be recalculated; using the new increased cost of energy, to compute the affected components of the cost of energy for the previous six months. This revised six-month average of the cost of energy per kilowatt hour shall then be applied to the consumer's monthly charge for electricity used without any City Council action.

For purposes of this section, the following words shall have the following meanings:

Cost of Energy shall mean the power cost for the generating plants owned by the City, consisting of the monthly natural gas cost and the cost of any fuel oil consumed; the cost of coal consumed, including freight and handling charges; plus costs of payments by the City for power and energy purchased from other power suppliers, less receipts from energy sold to other electric utilities.

Cost of Energy per Kilowatt-Hour shall mean "Cost of Energy" as above defined, divided by 95 percent of the total kilowatt hours; consisting of the kilowatt hour output of the City's electric generating plants, plus the kilowatt hours purchased from other power suppliers, less the kilowatt hours of energy sold to other electric utilities.

Amended by Ord. No. 8940, effective 1-1-2005
Amended by Ord. No. 8946, effective 1-5-2005

ORDINANCE NO. 9148

An ordinance to adjust the calculation of rates under Chapter 15 of the Grand Island City Code and to provide for publication and the effective date of this ordinance.

BE IT ORDAINED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA:

SECTION 1. The calculation of power cost adjustment under Section 15-70 is amended as follows:

For the purpose of calculating the six-month average cost of energy per kilowatt-hour, the average cost of energy for the month of October, 2007 is hereby set at 22.14 mills per kilowatt-hour.

SECTION 2. Nothing in this Ordinance is intended to amend Section 15-70 as now existing, but merely to set the average cost of energy for the month of October, 2007.

SECTION 3. This Ordinance is deemed non-permanent in nature and is not intended for permanent codification.

SECTION 4. That this ordinance shall be in force and take effect from and after its passage and publication, within fifteen days in one issue of the Grand Island Independent as provided by law.

Enacted: November 13, 2007.

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Margaret Hornady, Mayor

Attest:

_____
RaNae Edwards, City Clerk

Approved as to Form ¤ _____
November 8, 2007   ¤ City Attorney