

STAFF REPORT REGULAR MEETING

AGENDA DATE: May 2, 2023

DEPARTMENT: Electric Utility

TITLE:

Purchased Power Cost Adjustment Update (PCA)

SUMMARY:

Monthly update for the Purchased Power Cost Adjustment in Electric Utility Rates

BACKGROUND AND JUSTIFICATION:

The City's electric utility provides electricity to its customers using a variety of electric production resources. Among them are the City's entitlements in various Florida Municipal Power Agency (FMPA) St. Lucie and Stanton 1 Projects, the City's own solar farm atop City's closed landfill, the City's power plant, and a contract with Orlando Utilities Commission for supplemental energy and capacity (the "OUC Agreement").

As determined during the electric utility rate making process certain electric utility expenses largely related to the purchase of electric capacity, debt service, operations and maintenance, general fund transfer, and City shared internal service costs are recovered via the Base Energy Charge on customers' bills and are not included in the Purchased Power Cost Adjustment (PCA).

Expenses largely related to the purchase of electric energy from the aforementioned electric production resources, as well as the electric energy and capacity purchases under the OUC Agreement, and electric transmission costs, are recovered or returned via the Purchased Power Cost Adjustment (PCA) on customers' bills. As per City Resolution 92-2021 the PCA "shall be established for a projected 3-month period for energy sales during that period...".

In order to establish the PCA, City's Electric Utility Staff provides a recommendation to the City Commission of the PCA for the upcoming 3-month period.

In determining the PCA recommendation for June 1, Staff has calculated actual incurred purchased power costs beginning with December '21 (when the PCA resolution was adopted by the Commission) through February '23 together with a forecast of purchased power costs for the upcoming 3-month period (April '23 – June '23).

In performing its analysis Staff then calculates a True-Up amount representing the over or under recovery of purchased power costs from the prior period (Dec '21 – Fed '23), which are then credited or debited to the following period accordingly.

Monthly PCA Review:

During the February 28 Utility Meeting, the Commission requested a monthly update on the PCA projection in lieu of making adjustments to the April 1 PCA.

Due to the impact of declining natural gas costs on wholesale power costs. Staff has developed three cases or options for evaluation by the City Commission. Option 1 would allow for a reduction on the PCA as we anticipate an over-recovery due to declining natural gas prices since the Commission previously approved a \$7.29 reduction in the PCA (to take effect May 1, 2023). Option 2 would allow for a transfer of \$500,000 to the Rate Stabilization Fund and a smaller reduction in the PCA. Option 3 would allow for a transfer of \$1,000,000 to the Rate Stabilization Fund with an even lower reduction in the PCA. Funding the Rate Stabilization Fund would serve to minimize the impact to customers during periods when increase due to rising natural gas fuel costs by withdrawing from the Rate Stabilization Fund to offset PCA costs.

Staff develops its estimates of future purchased power costs using widely published and publicly available values for natural gas futures contracts for the applicable months. City does not actually purchase natural gas futures contracts, it merely used published prices as a forecasting tool. Staff develops its estimates of future purchased power costs using widely published and publicly available values for natural gas futures contracts for the applicable months. City does not actually purchase natural gas futures contracts, it merely used published prices as a forecasting tool. Section 3 of City's Resolution 92-2021 defines the Purchased Power Cost Adjustment (PCA) and formula for calculation as follows:

$$PCA = (A + B + C) / D$$

Where:

A = The projected purchased power costs for the projected 3-month period comprised of costs such as the FMPA Stanton 1 variable costs, the FMPA Municipal Solar Project power costs, supplemental purchased power capacity; energy and directly related costs, Lake Worth Beach electric utility power plant generating fuel; and transmission costs:

B = A true-up amount representing the over or under recovery of purchased power costs from the prior period

C = The amount transferred to or from the Rate Stabilization Fund for the projected period

D = The projected total retail sales in MWh for the projected 3-month period

Option 1:

Accordingly, the recommended PCA elements effective June 1, 2023 under Option 1 are as follows:

A = \$3,562,184

B = -\$281,075

C = \$0

D = 113,107 MWh

PCA = \$29.01 per MWh

Option 1 PCA; Residential First 1,000 kWh per month = \$0.02691 per kWh

Option 1 PCA; Residential Additional kWh above 1,000 kWh per month = \$0.03691 per kWh

Option 1 PCA; Average; Commercial and Demand = \$0.02901 per kWh

Option 1 Monthly Change in Bill for 1,000 kWh Residential Customer = -\$34.01 (includes \$7.29 reduction scheduled to take effect May 1, 2023)

Option 2:

Alternatively, the recommended PCA elements effective June 1, 2023 under Option 2 are as follows:

A = \$3,562,184

B = -\$281,075

C = \$500,000

D = 113,107 MWh

PCA = \$33.43 per MWh

Option 2 PCA; Residential First 1,000 kWh per month = \$0.03133 per kWh

Option 2 PCA; Residential Additional kWh above 1,000 kWh per month = \$0.04133 per kWh

Option 2 PCA; Average; Commercial and Demand = \$0.03343 per kWh

Option 2 Monthly Change in Bill for 1,000 Residential Customer = -\$29.59 (includes \$7.29 reduction scheduled to take effect May 1, 2023)

Option 3:

Lastly, the recommended PCA elements effective June 1, 2023 under Option 3 are as follows:

A = \$3,562,184

B = -\$281,075

C = \$1,000,000

D = 113,107 MWh

PCA = \$37.85 per MWh

Option 3 PCA; Residential First 1,000 kWh per month = \$0.03575 per kWh

Option 3 PCA; Residential Additional kWh above 1,000 kWh per month = \$0.04575 per kWh

Option 3 PCA; Average; Commercial and Demand = \$0.03785 per kWh

Option 3 Monthly Change in Bill for 1,000 kWh Residential Customer = -\$25.17 (includes \$7.29 reduction scheduled to take effect May 1, 2023)

If approved, the PCA for all customer rate classes will change effective June 1, 2023.

MOTION:

Move to approve/disapprove the PCA as presented under Option 1; Option 2; or Option 3 effective June 1, 2023.

ATTACHMENT(S):

PCA Calculation Templates for Rates Effective June 1, 2023

PCA revenue & expenses graph from Vice Mayor McVoy

Resolution 92-2021