

CITY OF REDDING, CALIFORNIA

Council Policy

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MODIFICATION OF THE EXISTING POWER COST ADJUSTMENT	96-218	1406	12/3/96	1

BACKGROUND

The power cost adjustment (PCA) was established initially on December 6, 1988, by Resolution 88-432 to provide a method of charging or crediting electric customers' monthly bills to reflect charges or refunds to the City from the Western Area Power Administration's (Western) revenue adjustment clause (RAC). On February 6, 1996, Council approved setting aside a portion of RAC refunds to build up a rate stabilization fund (RSF) to cover a portion of future anticipated expenses resulting from the cancellation of a power sales contract the City has with Western. During its regular meeting of November 19, 1996, the City Council voted unanimously to establish a policy to so set aside 100 percent of the Western RAC refunds.

PURPOSE

The Western contract cancellation will result in a \$10.6-million revenue shortfall for the City over the 1999-2001 time span. The Electric Utility expects to offset \$7.4 million of that by selling the power in the spot market. This leaves a \$3.2-million revenue gap which will remain after the spot market sales. Unless all of this gap is offset, the difference would have to be made up in rates or from funds that otherwise would be used to reduce debt. It is the purpose of this policy to modify the PCA by setting aside 100 percent of RAC refunds in order to mitigate any future rate increase.

POLICY

1. There is hereby established a policy that 100 percent of RAC refunds will be set aside in the RSF to cover future anticipated shortfalls between what Western would have paid and what the City can now get for this energy resulting from the cancellation of a power sales contract the City has with Western.
2. In the event the RAC refunds set aside in the RSF exceed the amount needed to cover the revenue gap, proceeds from this fund shall be used for the purpose of industry restructuring or shall be rebated to customers as directed by the City Council; but in no case shall proceeds from this fund be used for non-Electric Utility purposes.

PROCEDURE

The following procedures shall be followed to implement these policies:

1. The City Council directs the City's Electric Department to identify on invoices received from Western the amount of any RAC refund.

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2. The Finance Division shall accumulate 100 percent of RAC refunds in the existing RSF deferred-revenue account established within the Electric Utility fund for RAC refund purposes.
3. The City Council shall approve, in accordance with this policy, any payments to be made from this RSF.
4. At such time as the original or any subsequent purpose for this RSF is met, as determined by the City Council, any remaining balance in the fund shall become a part of the rate reduction account within the RSF or shall be rebated to customers as a credit on their bills or shall be used to offset any rate increases.
5. Any interest earned on the fund shall be applied to the account balance.

Amended 2/18/97, Resolution 97-22