

MEMORANDUM

TO: Lindsborg Residents
FROM: City of Lindsborg
RE: Electric Rate Ordinance No. 4706

July 2011
City of Lindsborg



At the July 5, 2011, City Council meeting, Ordinance No. 4706 was adopted by City Council. This ordinance increases the base electric rate and the kilowatt hour (kWh) rate effective with the utility bills that are due September 10, 2011. The number one driver in the increased rates is the higher cost of purchased power. There are several factors that impact costs to generate electricity that are recovered through the wholesale electric costs. Additionally, the expiration of the City's contract with Westar Energy in 2010 has changed how purchased power costs are calculated.

In 2005, the City of Lindsborg was notified by Westar Energy that the existing contract would not be renewed when it expired on May 31, 2010. During this same time, the Federal Power Act was modified and adopted with the new modifications. The goal of the Federal Power Act was to create an energy market for the seamless flow of electricity creating a competitive market and therefore lowering the costs of energy. For individual customers, like the City of Lindsborg, it also unbundled the rates that were paid for electricity. Instead of paying a flat rate for the generation of the kWh of energy and the transmission of that energy, each were divided and billed separately. This separation of costs also created upward pressure on the total cost of wholesale energy.

The Federal Power Act also made the assertion that energy could flow seamless across the electric transmission grid and that energy purchasers would have a choice of where to purchase power. In Kansas, the opposite is true. The transmission system is constrained and doesn't allow the flow of energy from the west side of the state to the east side of the state, let alone across state lines. Other sources to purchase power were explored. Those sources included power suppliers in Oklahoma and Nebraska. But due to the limitations of the transmission system in Kansas, that energy could not be delivered from the generation sources to Lindsborg. This created a situation where the choice of suppliers was limited to one, Westar Energy.

The Federal Power Act did provide a protection for those wholesale power purchasers who had limited options. The act stated that those electric generators who had "market dominance" must sell power based upon cost, and not driven by the market. In 2006, Kansas Municipal Utilities (KMU), a trade association that the City of Lindsborg belongs, filed an intervention with the Federal Energy Regulatory Commission (FERC) saying that Westar Energy had market dominance. FERC made the determination that Westar Energy did indeed have market dominance, but the decision stopped short of saying that Westar was abusing that dominance.

The first edition of a new contract proposed in September of 2008 by Westar Energy was a dramatic change from the existing contract expiring on May 31, 2010. The existing contract was a bundled tariff rate contract with an energy cost adjustment (ECA) clause. The tariff rate included all costs of generation and transmission, plus provided for adjustments based upon cost of generation. The proposed 20-year contract was a generation formula rate (GFR) contract for purchased power that did not include transmission costs, and provided for the energy cost adjustment. In the analysis of the initial contract, it was determined that the kWh rate of wholesale energy, without transmission costs, would be 72% higher than the existing bundled wholesale energy rate. The cost in the 20th year of the GFR contract would be 325% higher than the first year of the new contract. Having explored other power supply options and finding the transmission grid did not support delivery of energy from other generators, City Council felt that this contract represented the exploitation of "market dominance" by Westar Energy.

In late 2008, the City of Lindsborg partnered with other municipal electric utilities in Kansas to file a complaint at FERC for a determination that Westar Energy was abusing its "market dominance." A series of settlement conferences regarding the contract disputes were held at FERC headquarters during the first six months of 2009, with the basic terms for new contracts agreed upon between municipal electric utilities in Kansas and Westar Energy. The settlement agreement was approved by the Federal Energy Regulatory Commission on July 30, 2009. This began the process of negotiating the specific contract terms for the City of Lindsborg wholesale power supply from Westar Energy. The final contract was approved by City Council on March 10, 2010.

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The current rates charged to residential and commercial customers were established in 1985. The residential rate was a \$5.00 base charge, plus \$0.075 per kWh. The commercial rate is \$8.00 base charge, plus \$0.08 per kWh. In 2007 a change in the base rate from \$5.00 to \$8.00 was implemented for residential customers and an energy cost adjustment (ECA) was implemented to recover the costs of purchased power. The ECA was put in place for both residential and commercial customers.

A study of the City's power supply costs, cost of service and revenue requirements commenced in October of 2010. The goal of the study was to examine the costs of purchasing energy and distributing the power to the community and to ensure the provision of safe and reliable electric energy at the most cost effective rate. Since 2004, electric rates have been subsidized in the amount of \$621,000. This was not a sustainable option for the City electric utility to maintain a reliable supply of power to the community. This study examined the underlying costs to determine the rates needed to continue the reliability of electricity in the community.

The cost of wholesale power represents 65.9% of the total cost of the electric utility, distribution represents 18.4% of total cost, and administration & non-operating expenses is 15.7%. The prior study of costs calculated the cost per kWh at \$0.0503. The most recent study showed the current average costs of the electric utility at \$0.07335 per kWh. With this information the new rate structure was developed.

The new rate structure that will be effective with the bills due September 10, 2011, was created to minimize the use of the energy cost adjustment (ECA). The new rate for residential customers will be a \$15 base charge plus \$0.0981 per kWh. The new rate will for commercial customers will be a \$15 base charge plus \$0.0981 per kWh. While the new ordinance provides for the implementation of an energy cost adjustment, it is anticipated that one will not have to be put in place immediately. Additionally, the energy cost adjustment will be forward looking to minimize the volatility of the adjustment from month to month. The average ECA for the first six months of 2011 is \$0.0235 per kWh. This makes the effective kWh rate for residential customers \$0.0985 per kWh and for commercial customers \$0.1035 per kWh.

The average cost increase for a residential customer is 11.8%. This is based upon the average residential customer consumption of 809 kWh per month. This is calculated using \$8 base charge + 809 kWh at \$0.075 per kWh + 809 kWh at an 12 month average ECA of \$0.019 kWh for a total of \$84.37 a month. Under the new rate it would be a \$15 base charge + 809 kWh at \$0.0981 per kWh + 809 kWh with an ECA of \$0.00 kWh for a total of \$94.36. This is an average increase of \$9.99 per month.

A rate increase is not an issue that City Council takes lightly and is always a difficult decision. In this case the decision was made to continue to provide quality service at the most cost effective and responsible rate. To minimize the cost impact to you, City of Lindsborg encourages you to implement energy efficiency measures in your home and business. One of those measures is a programmable thermostat. Go to <http://www.lindsborgcity.org/index.aspx?NID=768> for more information about programmable thermostats and the City of Lindsborg's Programmable Thermostat Rebate program. You can also visit these other resources for information on other energy efficiency measures you can implement to use electricity more cost effectively and save you money: City of Lindsborg energy conservation information - <http://www.lindsborgcity.org/index.aspx?NID=209>; Energy Savers Tips - <http://www.energysavers.gov/tips/>; and, Energy Star information - <http://www.energystar.gov/>.

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