



CITY OF LOVELAND

WATER & POWER DEPARTMENT

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AGENDA ITEM: 1 - ADDENDUM

MEETING DATE: 8/17/2016

SUBMITTED BY: Jim Lees, Utility Accounting Manager

TITLE: Minimum Target Cash Reserve and Self-Generating Rate Design

DESCRIPTION:

The purpose of this added item is to have the Loveland Utilities Commission consider rescinding a recommendation that was made at the July 24, 2016 meeting regarding the recommended rate increase for the Power Utility for 2017, and decide whether to change it from 6.5% to 5.7%.

SUMMARY:

At last month's LUC meeting, after consideration of the information presented by our Power rate consultant Mark Beauchamp, President of Utility Financial Solutions, the Commission voted unanimously to support a 5-year rate track for the Power Utility as follows:

2017: 6.5%

2018: 4.0%

2019-2021: 3.0% per year

The 6.5% rate increase for 2017 was based upon an assumed wholesale power rate increase from PRPA of 4.0% in 2017. Last Friday, August 12, 2016, PRPA released a memo stating that they plan to propose a 3% wholesale rate increase for 2017. When this change is factored into the cost-of-service model, it changes the rate increase for 2017 from 6.5% to 5.7%. So, a decision needs to be made as to whether the recommended rate increase for 2017 should stay at 6.5%, as the Commission approved last month, or change it to 5.7%.

The pros and cons of changing to a 5.7% increase for 2017 are:

PRO:

- A) We would be implementing a rate increase that is based on cost of service and would be using the most current information available

CON:

- A) Staying with the 6.5% rate increase would generate approximately \$480,000 of additional benefit to fund balance and would help to reach the newly calculated minimum reserve balance more quickly, if that methodology is approved

Staff recommends changing to a 5.7% overall rate increase for 2017. It is an increase that is based on cost-of-service results and will provide some relief for our customers in 2017. We advocate a gradual ramping up to the new target minimum reserve, if the LUC approves the new methodology.

RECOMMENDATION:

Rescind the recommendation made at the July 24, 2016 LUC meeting to recommend a 6.5% rate increase for 2017 and make a new recommendation of a 5.7% rate increase for 2017 to City Council.

REVIEWED BY DIRECTOR:

EFS