Background on Power Costs and Adjustment Factors:

The Power Cost Adjustment factor is a simple calculation that allows for the ebbs and flows of power costs to be smoothed over a period of time. The time period varies from utility to utility. In Painesville the time period is set at a 12 month rolling average.

Utilities usually set a base rate at a rate close to the true cost of service. In Painesville, the current base rate has not been adjusted in approximately 24 years and sits at $0.005. The direction of Council at this time is to take a look at the true cost of service through a Cost of Service (COS) model. I would expect that COS to come back with a recommendation that the base rate be adjusted to a more stable base. This will allow less fluctuation on a monthly basis.

In order to calculate the Power Cost Adjustment factor, you begin with taking the total cost for monthly power ($) and divide it by the total monthly power (kilowatt hour- kWh). The cost per kWh is then subtracted from the base rate of $0.005. That is the PCA for that month. Since it is a rolling twelve month, that number is added to the previous eleven months of PCA and divided by 12. That is the new PCA for the current bill.

Power Cost Adjustment Calculation

$$\frac{\$}{kWh} \text{ --- } \$0.005 = \text{Monthly PCA}$$

$$\frac{\text{Monthly PCA + Previous 11 months PCAs}}{12} = \text{Current Month's PCA}$$

Discussion to be had with Council:

If the base rate is closer to the true cost of power, the PCA will be significantly smaller. It may even show up as a negative cost in months where the power plant is able to run for peaking. By increasing the base rate, customers will be more aware of the true cost of service and will make the PCA have a smaller impact on the monthly bill.

A twelve month rolling average is a little out of the ordinary. It is a better business model to have a three- month rolling average. That allows the utility to capture the costs in a shorter period of time while still providing some buffer from unexpected spikes in prices. Under a three- month, an increase in power costs will be spread over a three-month period instead of twelve. If the City choses to increase the base and change to a three month rolling average, the customer bills will less variation on the costs side of the equation.

As a side note, the customer still has to be aware that the more energy they consume the higher the bill will be. That is not due to the cost of power supply but on the amount of kWh consumed.