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In this month's newsletter we are going to talk about electric rates, and how we calculate the final price per kilowatt. We'll cover PCA, MISO, generators, and even a little utility history. Hopefully, by the end, if I haven't put you to sleep, you'll have a better understanding of your utility bill.

Let's talk about PCA. PCA stands for Power Cost Adjustment. Several years back, you may remember, it was called Fuel Cost Adjustment, and it was blended with the basic rate on your bill. About the same time the name was changed to PCA, the decision was made to split the basic rate and PCA charge and list them separately on your bill which as you can imagine prompted a bunch of calls to the utility office. Fact is, anyone who pays for electricity has a power cost adjustment. A fluctuating number, it may not be called PCA, it may be blended into another number, it may be broken out into two or three numbers, or in the case of Southern California, about a dozen different numbers. PCA can even be a negative number, but the truth is, everybody's electric bill is affected by some form of a fluctuating PCA.

Electric Utility Finance 101: We buy electricity at wholesale, we sell electricity at cost. We don't have investors to satisfy, so there is no "up-charge" to the customer. That's not to say that the price the utility pays is the same as what the customer pays, there are many factors that figure in to that cost. We have a basic rate for electricity 0.10220 cents per kilowatt hour. What is in this number? In short, everything that is in the budget. Overhead and underground line maintenance, fuel, scheduled building maintenance, putting our electric system underground, our own electric bill, everything. What's in the PCA? Everything else. The biggest factor changing the PCA is the fluctuating wholesale cost of electricity.

Electric Utility Finance 201: I've talked in past newsletters about MISO and "the grid." MISO, the Midwest Independent System Operator controls congestion on the grid by artificially raising and lowering the price of electricity. How scary does that sound? Now typically our electricity is purchased on a "futures" market, day or days ahead style markets. There are many factors that affect the cost of electricity on the futures markets, hot days, cold days, scheduled generator or line maintenance, the list continues. Even oil and natural gas prices affect the cost of electricity. Sometimes there are energy interrupts. Last month's newsletter was about the renegotiated contracts with NSP. In these contracts we agree to purchase 40% of our electricity from Xcel. There are also provisions for Xcel to call for an interrupt. Usually on the hottest or coldest days of the year, but sometimes when a generator goes offline for some reason, equipment failure or accident that's when Xcel can pull the plug. When this happens, we have to go to the open market for our energy, and this is where MISO has its biggest affects.

Now about those generators, sitting there, doing nothing, they are actually lowering your electric bill. Delano Municipal Utilities belongs to a power agency. I've talked about them before too, the Central Minnesota Municipal Power Agency (CMMPA). These are the people who actually buy the electricity for its members. There are 12 member utilities in the CMMPA, some with their own generators and some without. Here is where electric utility finance gets a little hairy. Delano has a total of eight generators with a total capacity of 24 megawatts. Our historic high load is around 12½ megawatts. That gives us an excess capacity of 11½ megawatts. Our contract with Xcel takes our generators into account and sets us in a lower cost bracket. CMMPA member utilities without their own generators purchase that excess capacity to help offset their contracts with Xcel which puts them in a lower cost bracket. So basically the utility gets paid each month by other CMMPA members for having the generators available to run, not necessarily running, just available. This money gets applied right to the rate, every penny, which lowers the power cost adjustment, which means lower bills. As an added bonus, if we lose our transmission lines to Xcel, due to storm or other unforeseeable event, we have enough generation to power the city for as long as we need.

What about our electric rates? Why are they so high? On Halloween I went to a friend's house who lives in my neighborhood, and he asked me that same question. I asked him where he lived before and how long ago. He said they lived in Maple Grove three years ago. We talked about MISO, the Xcel contracts and our rate comparison. Three years ago our Commission recognized this problem and requested a comparison of neighboring utilities rates. They wanted comparisons of municipal, CoOp's and investor owned utilities. On our website, (www.delanomn.us/ratecomp.htm) we post that comparison. Starting in 2006, which was an ugly year for electric rates, you can see that Delano was struggling, but we weren't alone, Glencoe had a roller coaster ride as well. Oddly enough look at Xcel, there are several months where they are the third highest in the group. Even Wright Hennepin skirts around 4 or 5 highest, with the exception of a couple months.

2007 was a little better, with the exception of one month, Delano bounced around 2 or 3 highest at one point the same as Xcel, and at another the same as Wright/Hennepin. Throughout 2007, there were many meetings with CMMPA and Xcel trying to get our wholesale costs back in line. We've been looking at alternative providers since 2005 with the knowledge that our contracts would be ending around 2010. This is where our investments in Nebraska City II and Big Stone II coal plants come into play. I know that coal is a bad word with a lot of people, but other than nuclear it is the cheapest and most reliable energy source available.

In 2008 the outlook is much better, although not as low as Wright/Hennepin was three years ago. Wright/Hennepin isn't as low as *it* was three years ago. To compare Delano's electric rates today to what Wright/Hennepin was three years ago isn't a fair or accurate comparison. You can see in April where our negotiations started paying off. We go from second highest in March, to fourth lowest in April, and we've been riding the low range ever since, twice being the lowest in the group.

Were we as low as Wright/Hennepin was three years ago? Actually for three or four months we were pretty close. One thing I would like you to realize is that every utility's electric rates have gone up over the past three years. Let's take a quick look at the highs and lows. In 2006 the highest was Delano in August at about 13 cents per KWh. In 2007 it was Glencoe in February with 14 cents, and so far in 2008 Buffalo has the highest in August with 13 cents. Now to the lows, in November 2006 Wright/Hennepin had a rate just below 6 cents per KWh, Chaska was the big winner in 2007 for the most of the year, their lowest rate was around 7 cents. Shakopee must have had some kind of an error in July, to drop 3 cents from June and then jump almost 4 ½ cents in August tells me that there is an error in there somewhere. If you take that into consideration, Delano ended up being the lowest of the group with a rate of around 9 cents. We were lower than Wright/Hennepin five out of the eight months so far this year, even lower than Xcel twice. You may be wondering how we can be lower than Xcel when we buy energy from Xcel. Simply, we buy at wholesale rates and we compare to retail rates.

If you look at all three years, you'll notice that the average price of electricity for all utilities has gone up around 1 to 2 cents. The chart has started to smooth out with fewer peaks and valleys as the various utilities learn how to deal with MISO, and MISO learns how to deal with the various utilities. Will the rates ever be as low as 5 or 10 years ago? Doubtful, the state legislature has mandates prohibiting any new investment in any non-renewable energy sources. The Commission and the utility are not against renewable energy by any means, but there are two things that renewable energy isn't. Renewable energy isn't cheap, and renewable energy isn't reliable. For some reason, as I have learned, customers hate it when their lights go out.

The Commission and employees of Delano Municipal Utilities are committed to providing our customers, residents and businesses alike, with the lowest rates possible for their electricity. With help from the CMMPA, we will continue to work towards lower electric rates for all our customers.