



# Martinsville CY 24-25 Market Power Supply

Rate Adjustment and Action



# Electric Rates

- Electricity prices generally reflect the cost to build, finance, maintain, and operate power plants and the electricity grid (the complex system of power transmission and distribution lines).



# Martinsville Current Market Cost and Drivers



The current block purchase cost for CY 23 energy only is \$29.30 MWh

24-25 CY cost will be \$57.95 MWh



Current long-term pricing is trending lower, and opportunities are being explored, such as the Battery Project.



This increase reflects market uncertainty, natural gas prices, and the post-economic recovery after Covid.



Natural gas prices are one of the main drivers of electric costs. Both domestic and international markets influence the cost of natural gas.

# Market Cost and Drivers

- System efficiency
- Peak demand
- Access to markets (both to buy and sell generated electricity)
- If the utility owns or operates any generation facilities
- Local climate and risk of natural disasters
- State and local regulations



# Electric Fund Overview

- Electric Fund Analysis and impact of adjustments
- History of approved rate adjustments FY18-FY24
- FY24 Electric Fund Projection
  - Revenue & Expenditure



# Electric Fund Analysis

Electric Fund	Audit 2018	Audit 2019	Audit 2020	Audit 2021	Audit 2022	Audit 2023
<b>Operating Revenues</b>						
Charges for Services	18,743,476	19,190,127	19,183,434	19,232,456	19,242,484	19,678,564
Miscellaneous	43,858	55,351	68,175	79,362	107,393	363,105
<b>Total Operating Revenues</b>	<b>18,787,334</b>	<b>19,245,478</b>	<b>19,251,609</b>	<b>19,311,818</b>	<b>19,349,877</b>	<b>20,041,669</b>
<b>Operating Expenses</b>						
Total Operating Expenses	<b>18,207,996</b>	17,653,703	16,735,667	16,865,444	19,866,339	19,475,563
<b>Operating Income/(Loss)</b>	<b>579,338</b>	<b>1,591,775</b>	<b>2,515,942</b>	<b>2,446,374</b>	<b>(516,462)</b>	<b>484,456</b>
Rate Adjustments		4.5% (July)	2.5% (Feb)			7% (Feb)
<b>Debt Service</b>	<b>361,159</b>	<b>371,221</b>	<b>369,879</b>	<b>361,627</b>	<b>391,131</b>	<b>389,745</b>
<b>Other Sources/Uses of Funds</b>						
Acquisition of Capital Asset	(810,472)	(876,746)	(1,899,663)	(895,244)	(910,008)	(292,962)
Grants				134,494	25,048	-
Non Cash Adjustments	43,792	677,668	1,111,406	(2,787,370)	922,585	-
<b>Total Other Sources/Uses</b>	<b>(766,680)</b>	<b>(199,078)</b>	<b>(788,257)</b>	<b>(3,548,120)</b>	<b>37,625</b>	<b>(292,962)</b>
<b>Surplus/Deficit</b>	<b>(548,501)</b>	<b>1,021,476</b>	<b>1,357,806</b>	<b>(1,463,373)</b>	<b>(869,968)</b>	<b>(198,251)</b>
Beginning Cash and Investments	1,118,138	569,637	1,591,113	2,948,919	1,450,546	541,712
<b>Ending Cash and Investment</b>	<b>569,637</b>	<b>1,591,113</b>	<b>2,948,919</b>	<b>1,485,546</b>	<b>580,578</b>	<b>343,461</b>
Days Cash on Hand	11	33	64	32	11	6

# Electric Fund – History of Rate Adjustments

- Rate Adjustments (history of increases)
  - 07/1/2018 - PCA increased from .00568 to .00124 or 4.5% increase
  - 07/1/2020 - PCA increased from .00124 to .01438 or 2.5%
  - 02/1/2023 - PCA increased from .01438 to .02268 or 7%
  - 07/1/2023 - Base rate increase of 7% (PCA is at 0)
  - 1/1/2024 - Recommended 5.2% PCA
- Purchased Power Contract price nearly doubled for CY24-25.
- The need to maintain Electric Department's fund balance is necessary to cover expected purchased power increase in FY24 budget year and to help increase fund balance to avoid a deficit.
- The Electric Fund must maintain adequate fund balance/cash reserves to absorb weather driven events that also increase the cost of purchased power.
- One weather event can lead to increased demand in generation/demand, at times, costing the Electric Fund an estimated \$500,000 or more.
  - Examples: Winter Storm Elliot, Polar Vortex, Christmas Eve 2022

# Recommended Adjustment

- Energy cost increases will result in an approximate estimated 1.2-million-dollar deficit compared to the current budget.
- The recommended increase in Power Cost Adjustment (PCA) from the current 0 to .00794 per kWh will result in an annual revenue increase of \$1,270,400 based on projected 160,000,000 annual kWh sales. Temperatures primarily drive actual sales.
- Recommending a **5.2%** rise in PCA.
- For example, the rate for 1,000 kWh will go from \$152.50 to \$160.44, taxes included, representing a \$7.94 increase monthly per 1,000kWh
- Proposed rate adjustment to be effective on/after Jan 1, 2024.

## Current Fiscal Outlook Electric Fund

*The Electric Fund is trying to recover from a lack of rate adjustments in 2021-2023. The Electric Fund is trending toward deficit due to the increase in the cost of purchased power in FY24.*

*This rate adjustment helps fund critical capital infrastructure and operational costs, extends cash reserve.*

# \$ 21,938,000

### Projected Revenue – Electric Fund

- Does not reflect rate adjustment proposed in Jan 2024
- If rate adjustment is approved by Jan 9, rate adjustment would be applied to Jan electric bill

# \$ 23,051,237

### Projected Expenditures – Electric Fund

- Projected 1.1M deficit in FY24

# FY24 Budget Highlights

## Electric (Fund -14)

- Included an **8%** electric rate increase effective July 1, 2023
- FY24 Electric budget's purchased power item is the largest single line-item expense in the City's budget and represents 72.3% of the Electric budget.
- Anticipated a **5.2 % additional PCA rate** adjustment to occur in **Jan 2024**
  - Prefer incremental rate adjustments to better assist citizens and customers with increased electric charges.
- Electric is significantly under the recommended reserve requirement and is expected to remain so for the near future. Rate adjustments should increase reserves over time.
- The FY24 budget implemented many cost savings strategies across the all funds.
- Increases in Electric Fund expenditures are primarily driven by purchased power costs.

# Electric Fund Fiscal Year 2023-23 Fiscal Challenge

- According to the **U.S. Energy Information Administration**, residential retail electricity prices are expected to rise in 2022, although at a slightly slower rate.
- In 2022, the average nominal price is expected to increase by **3.9% to 14.26 cents/kWh**. However, **Statista** predicts that the average end-use electricity price in the United States will decrease in the coming three decades, to reach some **11 U.S. cents per kilowatt-hour by 2050**.
- It's important to note that electricity prices are influenced by various factors such as fuel costs, weather, and government regulations.
- Therefore, it's difficult to predict with certainty how electricity prices will change in the future. However, it's safe to say that electricity prices are likely to fluctuate in the coming years.