



Florida Municipal Power Agency

AGENDA PACKAGE MEMORANDUM

TO: FMPA Executive Committee
FROM: Mark Larson and Jim Arntz
DATE: March 20, 2014
ITEM: Alternative Fixed Cost Allocators / Peak Shaving - Cost Shifting

Introduction During the December, 2013 Executive Committee Meeting, while discussing information relating to Member Demand Side Management (DSM) programs and their impact on the ARP demand rates, it was requested that the members restart the dialogue regarding the allocation and collection of demand costs.

In January, 2014 information from prior meetings on fixed cost allocation and demand rate design alternatives was provided by staff to the Executive Committee as requested by the members. The Committee requested that staff schedule a workshop to discuss active and proposed peak shaving activities by member systems.

On February 11, 2014 the Executive Committee held a workshop and reviewed the peak shaving program information provided by the four ARP Participants who are currently peak shaving (Leesburg, Beaches Energy, Fort Pierce and Fort Meade). After discussion of the various activities, some Participants indicated that they were unwilling to have costs shifted to them due to the peak shaving activities of other Participants, and asked staff to come up with a way to stop the cost shifting that is occurring due to the peak shaving activities. After additional discussion, a straw poll was taken directing staff to bring back a proposal for a different way to allocate fixed costs that would be fair and equitable to all Participants and would minimize the current financial incentive for ARP Participants to use customer and utility owned generation for peak shaving purposes.

Possible Compromise In addition to staff working up alternatives (noted later in this memo) to end demand cost shifting, Nick, following direction from the Executive Committee, has been separately discussing possible compromise solutions with individual ARP Participants. There remains strong support for ending demand cost shifting due to peak shaving by individual ARP Participants using either their utility's assets or customer generation. The area with some disagreement is on how quickly the ARP and its Participants should move to stop peak shaving actions which result in affected billings and resultant demand cost shifting. A proposal that would appear to have broad support is one wherein any ARP Participant using utility assets to peak shave would stop such action by no later than September 30, 2014, and cease remaining peak shaving action by September 30, 2015. To be clear, all demand cost

shifting caused by peak shaving (not DSM) of any kind would cease by no later than September 30, 2015.

These dates were important to a possible compromise solution because they afforded a relatively quick end to peak shaving activities, thus saving the Participants currently contemplating new expenditures in this area significant dollars, while providing current Participants implementing peak shaving some time to ramp down utility activities, avoid current budget year disruptions and/or end contractual agreements in a customer/public sensitive way.

Staff has evaluated the dollar value of the proposal assuming for comparison and calculation of such amounts, a May 1, 2014 date that represents an earliest possible stop “cold turkey” date, that stays within the ARP’s agenda process for action items as well as provides for Participants to act within contracts in the earliest way without penalty or customer relation repercussions. The estimated costs that might be shifted while each phase is effective under a two-phase or possibly a three phase approach are shown below (by Participant):

FYI FYE 2013 Peak NEL (Kw)	Participant:	Phase 1	Phase 2	Phase 3
		May 1 to September 30, 2014	October 1, 2014 to March 31, 2015	April 1, 2015 to September 30, 2015
5,861	Bushnell	\$ 6,266	\$ 3,255	\$ 2,957
24,590	Clewiston	24,426	12,065	11,573
9,586	Ft Meade	(78,824)	5,683	4,824
103,681	Ft Pierce	(12,485)	60,451	58,624
26,221	Green Cove Springs	26,649	13,903	12,525
5,600	Havana	6,157	3,047	2,778
168,211	Beaches Energy	(117,523)	(127,982)	(139,575)
136,050	Keys	160,982	64,167	75,487
313,975	Kissimmee Utility Authority	377,267	170,445	178,360
99,047	Leesburg	(743,773)	(365,391)	(366,828)
7,534	Newberry	8,458	4,253	3,872
275,820	Ocala	326,650	151,589	153,384
15,228	Starke	17,966	8,096	8,411

In the table above, amounts in () indicate costs shifted to others due to peak shaving activities.

Stop Cost
Shifting
Alternatives

While Nick worked to find common ground as directed by the EC, staff considered several different ways to stop or minimize cost shifting that is currently occurring due to peak shaving activities. Of these alternatives, only one accomplishes the single purpose asked of staff: stop cost shifting of demand expenses between ARP Participants resulting from peak shaving activities. This one method is also the most straight-forward and logical: simply add back the amount of KWs shaved from the peak, retaining the current rate structure and methodology. Some additional thoughts on this approach are noted below.

Add back peak shaving capacity and retain current rate structure and methodology. On a monthly basis, peak shaving activity, if any, would be added back to the Participants’ co-incident peaks in order to determine the

monthly demand rate. All Participants would then be billed demand based on the adjusted co-incident peak and demand rate.

- a. **How does this address cost shifting from peak shaving?** By adding the amount of peak shaving KW back to the billing determinant the activity is negated and the peak shaving Participant receives no benefit. This is the most direct way to eliminate the cost shifting due to peak shaving that is currently occurring.
- b. **What are the negatives about this suggestion?** Currently, peak shaving activity reported to FMPA by the ARP Participants is based on estimated output of generation units calculated by multiplying the capacity of the unit by the portion of the hour the unit ran during the co-incident peak hour. FMPA would have to rely on the Participants to timely provide this information each month in order to facilitate the rate calculation and billing processes.
- c. **Any transition methods or suggestions?** This change could be made effective at any time determined appropriate by the Executive Committee.

Summary
Thought

One fact became abundantly clear after reviewing the alternatives: each of the different new ways to allocate demand costs resulted in a shift in costs between the ARP Participants from the current method; some alternatives having a very significant impact in how much of the Demand costs each Participant system paid for.

The **attached table shows the difference in fixed cost allocations** between the current ARP rate methodology in Rate Schedule B1 for FYE 2013 and the result when the shaved KWs are added back prior to bill calculation.

Recommended Action:

For information only, no action requested.

Attachment

Demand Costs Allocated based on Peak Shaving Added Back

Participant	FYE 2013 Demand Paid	Demand under New Allocation Method	(Lower) or Higher Demand Costs Using Alternative
Bushnell	\$ 1,197,596	\$ 1,190,645	\$ (6,951)
Clewiston	3,763,408	3,742,069	(21,340)
Fort Meade	1,969,577	1,958,147	(11,430)
Fort Pierce	19,554,933	19,655,776	100,843
Green Cove Springs	5,443,933	5,412,112	(31,821)
Havana	1,212,372	1,205,225	(7,147)
Beaches Energy	35,291,276	35,799,532	508,257
Keys Energy Services	27,611,779	27,455,706	(156,072)
Kissimmee Utility Authority	64,573,420	64,200,961	(372,459)
Leesburg	19,263,650	19,704,643	440,993
Ocala	59,069,922	58,725,909	(344,013)
Starke	2,957,076	2,939,839	(17,237)
Newberry	1,716,406	1,706,405	(10,001)
Total Active Participants	\$ 243,625,346	\$ 243,696,970	\$ 71,623
Lake Worth Utilities	12,404,841	12,333,965	(70,876)
Total	\$ 256,030,187	\$ 256,030,934	\$ 747

Note: Demand costs paid by Lake Worth in 2013 will be paid by all remaining Participants, net of any related reduction in costs in future years.