

Power Supply Costs Adjustment

Michigan has seen a dramatic change in the price of producing and delivering electricity during 2005 resulting in power supply costs being under-recovered for the City during the six month period from April 2005 – September 2005. As part of the rate design approved in February 2005 a Purchased Cost Adjustment (PCA) was implemented in April 2005. The PCA is designed to recover charges for purchasing power when it exceeds the base amount established in the rates and rebate customers if the cost of power supply is below the base amount. The base cost of power at the time the rates were established was 4.5 cents per kWh. Cost during the first six months exceeded the base amount as a result of the following:

1. The Federal Energy Regulatory Commission has allowed transmission companies to temporarily increase their charges to recover potential stranded costs as a result of restructuring the electric market. The new charge called Seams Elimination Charge Adjustments (SECA) was implemented for an 18 month period and is anticipated to be removed during 2006.
2. Fuel costs related to producing power at the Kalkaska facility increased as a result of increases in natural gas prices.
3. Unforeseen outages in pool members production caused the power pool to purchase a greater amount of its power from the spot market at a greater costs than if produced by pool members
4. Lansing had disruptions in coal deliveries for a month forcing the City to purchase fuel from an alternate source at a greater price. The increased cost of fuel is passed on to members as part of the MPPA contract
5. MPPA incurred a new charge this past year as a result of restructuring. The charge is anticipated to be eliminated once the power supply assets are registered.

Some of the new power supply charges incurred in 2005 will be eliminated, however there are uncertainties related to the price of power the City of Charlevoix will pay from the pool. This price is currently being negotiated and it is difficult to predict the impact this may have the price of purchased power.