



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



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



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



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



City of Martinsville

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
Operating Revenues						
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
Total Operating Revenues	18,787,334	19,245,478	19,251,609	19,311,818	19,349,877	20,041,669
Operating Expenses						
Total Operating Expenses	18,207,996	17,653,703	16,735,667	16,865,444	19,866,339	19,475,563
Operating Income/(Loss)	579,338	1,591,775	2,515,942	2,446,374	(516,462)	484,456
Rate Adjustments		4.5% (July)	2.5% (Feb)			7% (Feb)
Debt Service	361,159	371,221	369,879	361,627	391,131	389,745
Other Sources/Uses of Funds						
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	-
Total Other Sources/Uses	(766,680)	(199,078)	(788,257)	(3,548,120)	37,625	(292,962)
Surplus/Deficit	(548,501)	1,021,476	1,357,806	(1,463,373)	(869,968)	(198,251)
Beginning Cash and Investments	1,118,138	569,637	1,591,113	2,948,919	1,450,546	541,712
Ending Cash and Investment	569,637	1,591,113	2,948,919	1,485,546	580,578	343,461
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.

MM.DD.20XX