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PRESS RELEASE

Board of City Commissioners Address Electric Costs Related to February Winter Storm and Increased Natural Gas Pricing

--For Immediate Release--

Sallisaw, Oklahoma (October 28, 2021) – At an October 28th special meeting, the Board of City Commissioners again addressed how to recover additional electric costs due to the February winter storm and current natural gas prices. After discussion, and a presentation from city staff, the Board of City Commissioners approved a plan that will use the refinancing of debt to cover the excess cost of electricity incurred during Winter Storm URI in February 2021 (referred to as PCAx costs).

City Manager Keith Skelton stated, “After our October 11th meeting, staff ensured the Board of Commissioners, and our customers, that we would continue to look for ways to minimize the power costs being passed to our customers. After looking at some existing debt and the bond market, staff and the city’s financial advisors determined that by refinancing our Series 2012 bond issue and adding in the \$1.9 million needed to cover the PCAx costs, we could pay the winter storm costs allocated to Sallisaw with minor adjustments to our monthly debt payments. We feel this is the right thing to do, and a proper use of the funding. By doing this, we are saving our electric customers over \$2.1 million over the next 10 years. The best thing is we WILL NOT have to add the PCAx costs to our customers electric billing statements.”

In February 2021, the midwestern states were hit hard by a winter storm that sent temperatures plummeting, causing a severe strain on electric generation and natural gas supply. Many Grand River Dam Authority (GRDA) communities were requested to curtail electric usage during the winter event, even having substations shut down for periods of time to conserve power and prevent damage to distribution systems across the Midwest. During the winter storm event, GRDA was forced to expend over \$102 million for natural gas purchases over a four day period to keep its electric generation running, and to meet the requirements of the Southwest Power Pool. Afterwards, GRDA was able to pay their gas costs up front, using significant cash reserves of GRDA. GRDA, as well as other public and private electric generation companies, must now replenish those cash reserves so that they can continue required capital projects for electric generation and distribution.

In order to recover GRDA's cost incurred during the winter storm, GRDA established a Power Cost Adjustment Extraordinary charge (PCAx) to recover their reserves expended to pay for the natural gas usage. The amount each community must pay was calculated based on their energy purchases during the month of February 2021. For Sallisaw, the amount owed is \$1,956,728. To repay this amount, Sallisaw originally chose a 120-month payback period, with the PCAx charge added to customers utility billing statements. But now, with the refinancing plan approved by the Sallisaw Board of Commissioners, **the PCAx cost will not have to be passed to Sallisaw's electric customers.**

Skelton went on to state, "The PCAx issue is only one of two issues we are having with escalating power costs. With the Board's action today, we were able to take care of the PCAx issue, but we must still keep our eye on natural gas prices, which are causing GRDA's normal power cost adjustment to escalate monthly. For now, the CPBA adjustment, discussed at the October 11th meeting, will have to remain in our rate calculations. The City and GRDA have no control over natural gas prices, we can only hope they are close to topping out and will start going down soon."

What is the Cost of Power Base Adjustment (CPBA)?

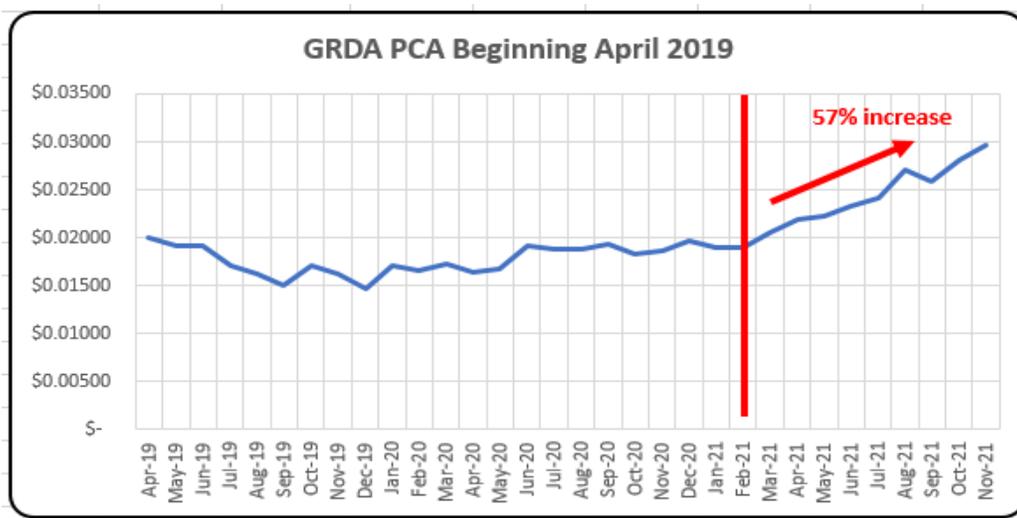
At their October 11, 2021, meeting, the Board of City Commissioners were presented information on the escalating cost of electric power due to rising natural gas prices. During the meeting, the City Manager discussed a Cost of Power Base Adjustment (CPBA), that will allow the city to recover purchased electricity costs over that included in the city's base electric rates.

*In discussing the CPBA adjustment, brought about by rising natural gas costs, Skelton stated, "Natural gas prices continue to increase, which causes GRDA's cost of electric generation to increase. **For the period February 2021 through November 2021, the power cost adjustment passed to the city from GRDA has increased over 57%. It is important to note the City of Sallisaw and GRDA have no control over these costs.** The rising cost of natural gas and other facets of electric generation have to be recovered by GRDA, and ultimately have to be passed on to GRDA communities, including Sallisaw and its electric customers. Our city's base electric rates contain a Purchase Power Component (PPC) that allows the city to recover 100% of the GRDA purchased power costs. With the escalating fuel cost GRDA is encountering, the cost of electric being purchased by the city is now surpassing the PPC component in the city rate structure. This means we must adjust our rate calculations monthly to account for this additional cost. Sallisaw, as well as other GRDA communities, cannot absorb these costs."*

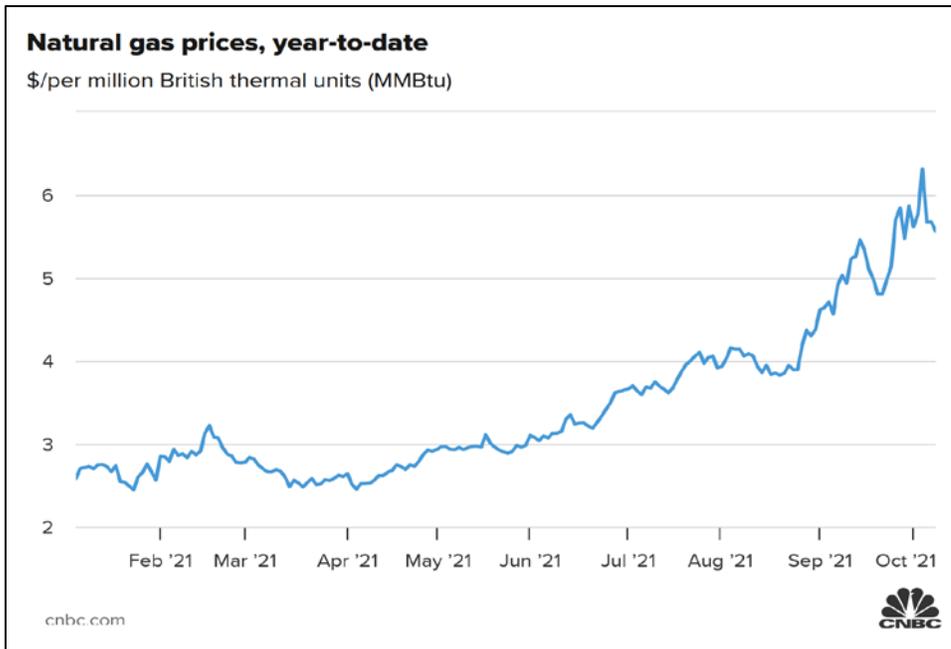
"We realize escalating electric costs are not popular among our customers. It is not popular with city staff or the Board of City Commissioners as well. But the fact is, GRDA and the GRDA communities have no control over these costs, and neither can absorb the costs. City staff will continue to explore ways to minimize any of the costs we must pass on to our customers."

Facts concerning the CPBA and PCAx adjustments include:

1. During Winter Storm URI, the Grand River Dam Authority incurred fuel costs surpassing \$102 million over just four days. This cost equaled 72% of GRDA’s entire fuel and purchased power budget for 2021. Sallisaw’s portion of this cost is \$1,956,728, based on kWh purchased during February 2021.
2. The State of Oklahoma has adopted a plan to issue debt for both private and public electric generation organizations, such as GRDA and OG&E. This debt issuance will allow the electric generators to recover their cost incurred during Winter Storm URI. The customers of these utilities will ultimately pay the cost of the debt issuance over a period of 10 to 20 years, or more. **By paying its PCAx costs up front, Sallisaw will not have to be involved in this plan.**
3. To repay the city’s portion of \$1,956,728, the city originally selected a 120-month payback period which equated to \$16,306 per month, plus the carrying cost of debt issuance. **Now that the city has chosen to pay this amount in full, it will not have to be collected from customers in the monthly billing statements, thus saving Sallisaw customers over \$2.1 million over the next 10 years.**
4. GRDA’s normal power cost adjustments passed to the city have increased over 57% since February 2021. This is mostly due to increased natural gas rates. To account for this increase, the city is implementing a Cost of Power Base Adjustment (CPBA). This adjustment will be calculated monthly using a formula based on the average cost of power purchased from GRDA monthly. This amount will be collected in customer billing statements as “Elect.CPBA”.
5. Low storage levels, exports of liquified natural gas to Europe and Asia, and the recent gulf hurricane are just a few of the factors behind the increasing prices in natural gas.



The graph above represents the normal GRDA Power Cost Adjustment (PCA) increase through November 2021. Since February 2021 the PCA costs have increased over 57%.



The graph above shows the increase in natural gas prices from February 2021, an increase of over 140%. *Source, CNBC.com, 10/13/2021

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