RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES **DATE**: **JUNE 12, 2023**

SUBJECT: ELECTRIC UTILITY FIVE-YEAR RATE PLAN PROPOSAL

ISSUE:

Consider a recommendation to the City Council proposing the establishment of a five-year rate plan for the electric utility and direct staff to prepare all documents necessary for a public hearing to be held at City Council on September 5, 2023 upon approval of the City Council.

RECOMMENDATIONS:

That the Board of Public Utilities recommend that the City Council:

1. Conceptually approve the electric utility five-year rate plan proposal; and

2. Direct the City Manager to prepare all documents necessary for public noticing of the rate proposal, to update proposed rate schedules to reflect changes due to the rate proposal, and to update any other documents necessary for the public hearing to be held before the City Council on September 5, 2023, with new rates effective January 1, 2024.

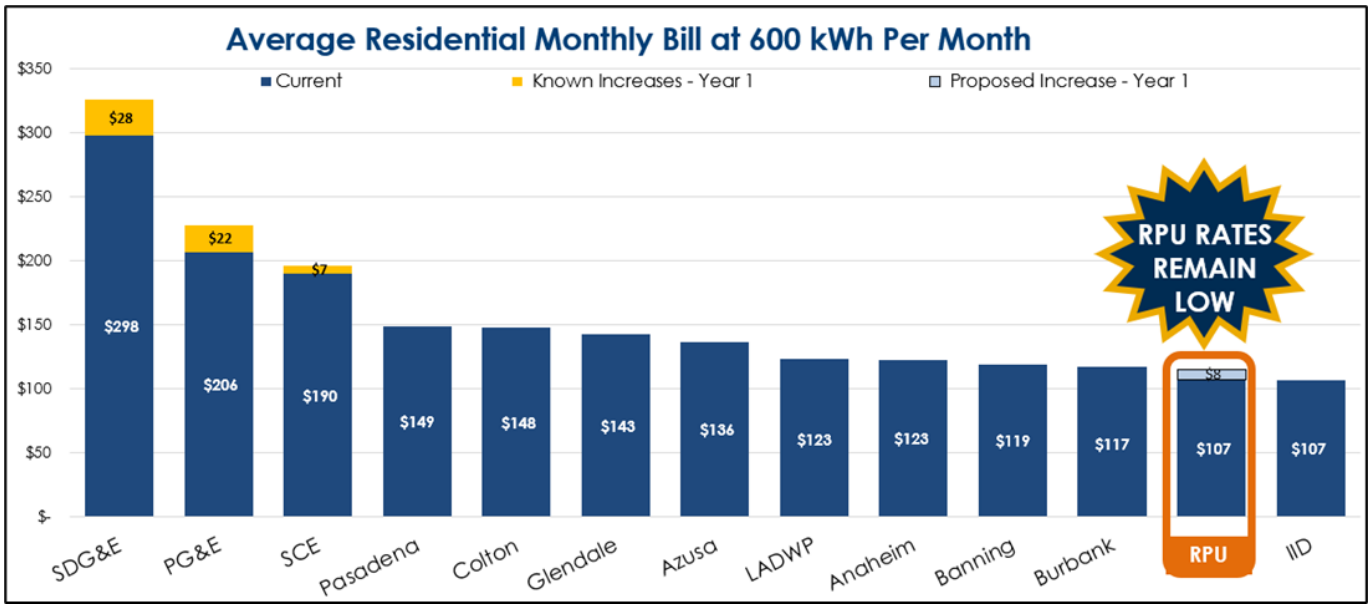
BACKGROUND:

The Riverside Public Utilities (RPU) electric utility is one of 46 public power utilities in California and provides high quality and reliable service to over 112,000 service connections and a population of 317,847 in the City of Riverside. RPU recently recorded its highest peak demand of 648 megawatts in the summer of 2022. The electric utility maintains and operates three generation facilities with a capacity of 260 MW, 15 substations, 99 miles of transmission lines, and 1,351 miles of distribution lines. The electric utility is also a joint power participant in the Palo Verde Nuclear Generation Station, the Hoover Hydro Power Plant, and three transmission system projects. RPU also has renewable energy resources consisting of solar, wind, geothermal and biomass projects delivered to Riverside through the State bulk high-voltage electric system.

Operating and maintaining 99 miles of transmission lines, 1,351 miles of distribution lines, and 15 substations takes highly skilled and talented employees. Unlike most municipal operations, the electric grid is monitored 24 hours a day, 7 days a week.

RPU electric rates are among the lowest in Southern California. Maintaining low rates is important to our customers and helps the City of Riverside maintain a competitive advantage when compared to other utilities like San Diego Gas & Electric (179% higher), Southern California Edison (78% higher) and Los Angeles Department of Water and Power (15% higher), as depicted in Table 1 below.

Table 1 – Comparison of Residential Electric Rates



RPU's efforts to keep rates low involve power supply costs which are the majority of the electric utility's operating budget. The use of long-term power purchase agreements and hedging to control the impact of power cost spiking reduced the impact to RPU by $13 million during the recent spike in power supply costs.

Despite low rates, there are many customers that require assistance. RPU established the Sharing Households Assist Riverside's Energy (SHARE) program in 1989 to provide low-income residents with utility bill assistance. Income qualification is based on 250% of the Federal poverty income guideline and the number of people in the household. For assistance, call (951) 782-0330 or visit the Casa Blanca Customer Resource Center to speak with a representative in person.

Rates from 2009 to 2018

Electric rates were increased by 3.6%, in 2009, and 5.8% in 2010. Between 2011 and 2018 or for a period of eight consecutive years, there were no electric rate increases.

Table 2 - 2009 to 2018 Electric Rates

Electric	Rate Increase
1/1/2009	3.60%
1/1/2010	5.80%
1/1/2011	0%
1/1/2012	0%
1/1/2013	0%
1/1/2014	0%
1/1/2015	0%
1/1/2016	0%
1/1/2017	0%
1/1/2018	0%

No Rate Increases from 2011 - 2018

Rates from 2019 to 2023

On May 22, 2018, the City Council approved the electric utility five-year rate plan with electric rate increases effective on January 1st of each year beginning on January 1, 2019 with five-year system average annual rate increases of 3.0%. Due to COVID-19 pandemic impacts on the community, the January 1, 2021 rate increase was delayed to July 1, 2021. The final year of the electric utility five-year rate plan was effective January 1, 2023, with the final year expiring December 31, 2023 as depicted in the table below.

Table 3 - Current Electric Rate Plan

Electric	Rate Increase
1/1/2019	2.95%
1/1/2020	3.00%
1/1/2021	3.00%
1/1/2022	3.00%
1/1/2023	3.00%

Current Rate Plan Expires 12/31/2023

Due to COVID impacts on the community, the 1/1/2021 rate increase was delayed to 7/1/2021

Establishment of Rates and Applicable Law

The electric utility is a self-supporting enterprise fund that provides services for a fee. Charges for service through rates are the primary source of funding for operations and also fund a portion of the capital improvement program. The capital improvement program is funded by a combination of bond proceeds, rates, reserves, and developer fees.

The Board has the authority to establish, and the City Council has the authority to approve, rate changes per City of Riverside Charter Section 1202(e) when necessary to ensure the continued recovery of costs for services and to secure reinvestment into the system infrastructure for long-term sustainability.

Proposition 26 provides that, prior to adoption of increases to electric rates, the City must provide notice by publication, such as the Press Enterprise, once each week for two weeks, with the first publication at least 15 days prior to the noticed public hearing. Electric rates are not subject to requirements of Proposition 218.

DISCUSSION:

The current five-year electric rate plan effective January 1, 2019 through December 31, 2023 is not sufficient to meet the inflation of costs in the general economy and even greater inflationary market prices in power supplies and construction costs. RPU's proposed electric rate increases are the result of these increased operational and capital costs and the need for additional funding to address declining reserve levels, pressures on financial metrics, and meeting fiscal policy requirements.

Overview of Rate Proposal

RPU's electric utility is faced with many current and future challenges including aging

infrastructure, power supply costs and sustainability challenges, and increased operational and capital costs.

Power supply challenges include State carbon neutrality mandates and local carbon reduction goals requiring a rapid transition to 100% clean energy, meeting increased loads and peak demands driven by transportation and building electrification, increasing transmission access charges related to new transmission investment needed to integrate regional renewable resources, and regulatory encroachment resulting in loss of local control and creating challenges to maintain rate affordability in alignment with local needs. Costs for natural gas have doubled over the last two years due to increased liquid natural gas exports and restricted capacity on western interstate gas pipelines, which, along with supply-chain challenges delaying the development of new renewable resources, have caused costs for California Independent System Operator (CAISO) market energy to increase 60% to 80%.

RPU is proposing a five-year (fiscal years 2023/24 through 2027/28) electric utility rate plan that will result in a five-year system average annual rate increase of 5.0%.

Table 4 - Proposed Five-Year Electric Utility Rate Plan

Proposed Five-Year Electric Utility Rate Plan System Average Rate Increases	
January 1, 2024	7.0%
January 1, 2025	7.0%
January 1, 2026	7.0%
January 1, 2027	2.0%
January 1, 2028	2.0%

Rate increases and associated bill impacts will vary by customer class and consumption levels.

Table 5 - Proposed Five-Year Electric Rate Plan by Major Customer Class

Customer Class	Customers	Year 1 % Increase	Year 2 % Increase	Year 3 % Increase	Year 4 % Increase	Year 5 % Increase
Residential	99,718	7.1%	7.1%	7.0%	2.3%	2.4%
Commercial Flat	11,015	2.5%	2.8%	3.0%	3.0%	2.9%
Commercial Demand	988	0.0%	0.0%	0.0%	0.0%	0.0%
Industrial TOU	622	5.9%	6.6%	6.3%	4.3%	4.3%

The five-year rate plan will fund $316 million in electric capital infrastructure and support current and future bond issuances providing $276 million in bond proceeds to fund capital infrastructure. New electric capital infrastructure investments include funding the Hunter Substation Replacement Project. Hunter Substation serves approximately 4,700 customers and was commissioned in the early 1960's, long outliving the average substation life expectancy of 50 years. The new substation will improve system reliability while meeting the existing power demands, supporting future development in the area, and maintaining power reliability.

Table 6 - Capital Improvement Plan Investments

Electric Capital Investments (in millions)	Adopted	Planning Purposes				
	23-24	24-25	25-26	26-27	27-28	Total
Overhead	$ 8.2	$ 9.0	$ 10.4	$ 10.3	$ 11.0	$ 48.9
Underground	14.1	14.1	16.3	15.0	15.6	75.1
Substation	13.0	11.3	14.4	15.1	15.9	69.7
Recurring / Obligation to Serve	14.4	15.6	16.6	17.7	18.9	83.2
System Automation	7.0	7.3	7.8	8.2	8.3	38.6
Total	$ 56.7	$ 57.3	$ 65.5	$ 66.3	$ 69.7	$ 315.5

Proposed Electric Rate Increase for Residential Customers

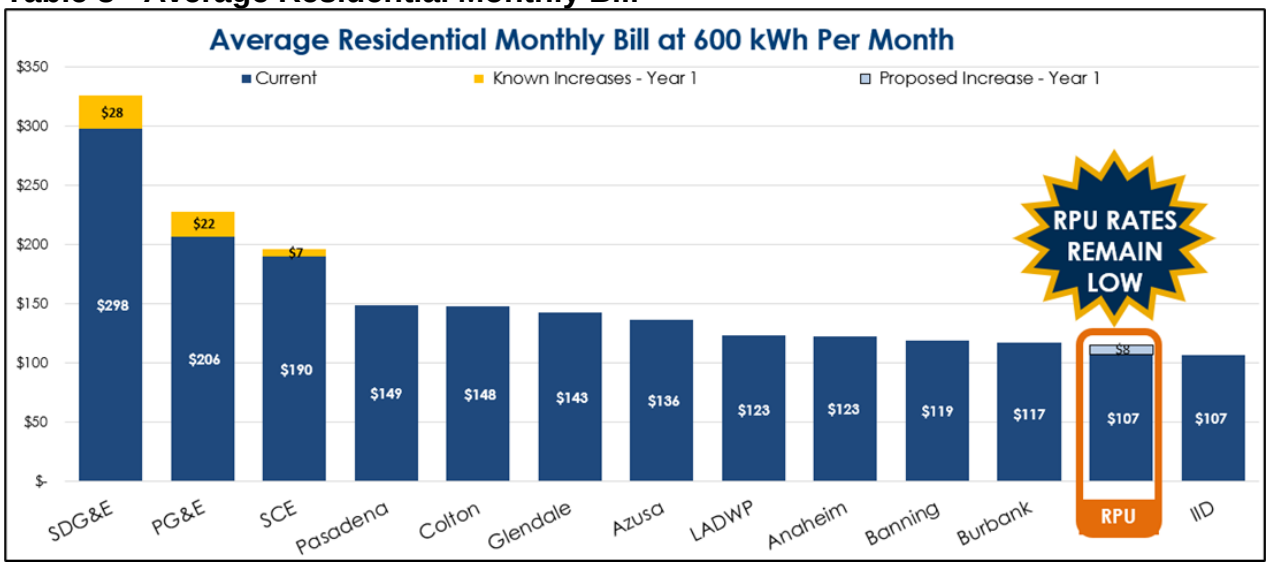
For a typical residential electric customer using on average 600 kWh per month with an average month bill of $107, the estimated average monthly bill increase in year 1 is $7.97, while the electric rate increase will be an estimated $0.21 per day in each year of the rate plan. Rate increases and associated bill impacts will vary by customer class and consumption levels.

Table 7 - Sample Average Rate Increase for Residential Customer

Customer Class	Avg kWh Usage	Year 1 % Increase	Average Years 2-5 % Increase
Residential	600	7.4%	5.0%

RPU's electric utility rates will continue to remain competitive within the region. A typical residential electric customer using on average 600 kWh per month, would pay 78% more at Southern California Edison.

Table 8 - Average Residential Monthly Bill



Low-Income Assistance Continues and Future Augmentation Proposed

The electric utility's low-income assistance program assists 4,880 electric customers with monthly bill assistance and is proposed to increase from $16.00 per month to $20.00 per month for qualifying customers. The income qualification is identical to the electric utility Sharing Households Assist Riverside's Energy (SHARE) Program and based on 250% of the Federal poverty income guidelines and the number of people in the household. The monthly bill assistance will be evaluated annually and future increases in monthly credits will align with each effective year of the proposed five-year rate plan. The electric utility's low-income assistance program is included in the annual electric utility public benefits fund budget.

Proposed Electric Rate Increase for Commercial Customers

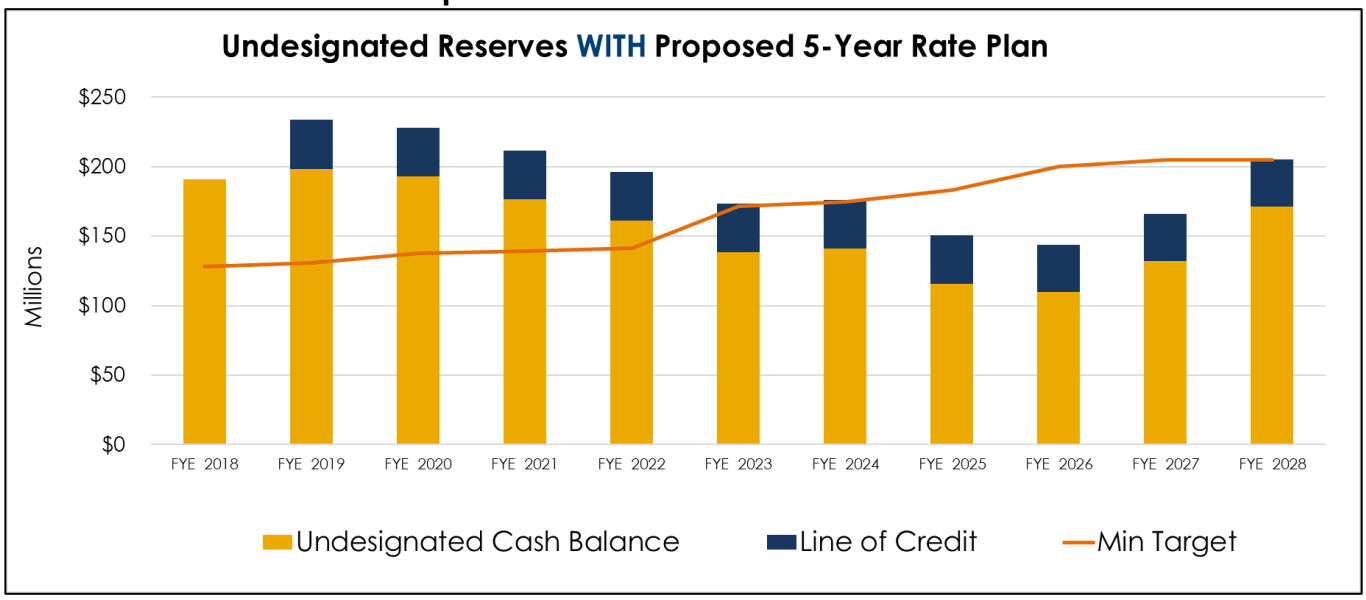
For a typical commercial electric customer using on average 1,750 kWh per month with an average monthly bill of $342, the estimated average monthly bill increase in year 1 is $9.12, while the electric rate increase will be an estimated $0.43 per day in each year of the rate plan. Rate increases and associated bill impacts will vary by customer class and consumption levels.

Table 9 - Sample Average Rate Increase for Commercial Customer

Customer Class	Avg kWh Usage	Year 1 % Increase	Average Years 2-5 % Increase
Commercial Flat	1,750	2.7%	3.8%

The proposed five-year electric utility rate plan will fund future operating and capital costs, maintain reserve levels and financial metrics that comply with RPU's fiscal and reserve policies, and maintain current bond ratings to keep borrowing costs for capital investments low. In order to keep the rate increases in the five-year electric rate plan as low as possible, the undesignated reserve balance combined with the line of credit does fall below minimum target reserve levels prior to returning to above minimum target reserve levels within the timeframe required by the reserve policy.

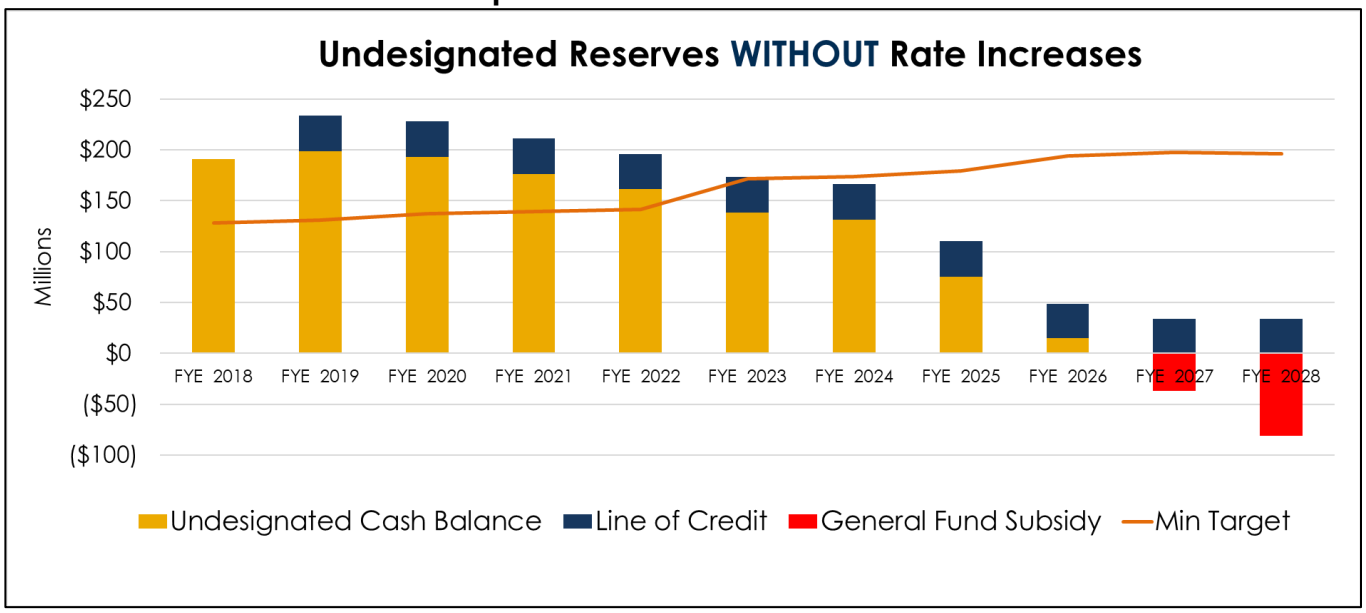
Table 10 - Reserves With Proposed Five-Year Rate Plan



Alternatives and Risks

Without a rate increase, the electric utility will completely spend down undesignated reserves by June 2027 and will require a subsidy from the General Fund to continue operations and carry out planned capital infrastructure projects. Reserve levels dropping below minimum required targets will require significant reductions to expenditures, including reductions in RPU's current capital program, deep cuts to current operations and maintenance spending plans, and significant personnel reductions that will severely impact response time to customers. In addition, when reserve levels drop permanently below minimum mandated levels, RPU's bond ratings will fall and its cost of borrowing will increase, costing future ratepayers millions in higher debt payments. Table 11 (below) depicts the undesignated reserves being entirely depleted between 2026 and 2027 at which point without a rate increase a significant General Fund subsidy would be needed going forward.

Table 11 - Reserves Without Proposed Five-Year Rate Plan



Next Steps

Action	Date
Board of Public Utilities Consideration	June 12, 2023
City Council Consideration	June 20, 2023
Board of Public Utilities Public Hearing and Consideration	August 14 or 28, 2023
City Council Public Hearing and Consideration	September 5, 2023
Proposed Effective Date	October 1, 2023

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 6 - Infrastructure, Mobility, & Connectivity**, and **Goal 6.5** – Maintain, protect and improve assets and infrastructure within the City's build environment to ensure and enhance reliability, resiliency, sustainability, and facilitate connectivity.

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The Electric Cost of Service Analysis and Rate Design Project is

transparent and developed with our customers' and the community's wellbeing as a top priority.

2. **Equity** – The Electric Cost of Service Analysis and Rate Design Project includes an equitable allocation of costs among customer classes which is incorporated into the resulting rate design recommendation.

3. **Fiscal Responsibility** – The Electric Cost of Service Analysis and Rate Design Project incorporates a forecasted revenue requirement that includes operating and capital expenditures funded by the prudent use of rate revenue, bond proceeds, and reserves, and demonstrates RPU's commitment to responsible management of financial resources.

4. **Innovation** – The Electric Cost of Service Analysis and Rate Design Project includes the Electric Utility Rate Trend Study that evaluates emerging rate structures, technologies, and trends and how they may apply or be implemented by RPU.

5. **Sustainability & Resiliency** – The Electric Cost of Service Analysis and Rate Design Project will design future rates for a five-year period to equitably recover costs while maintaining the financial health of RPU.

FISCAL IMPACT:

Total additional revenue over the five-year period for this rate increase is projected to be $273 million, averaging $54.6 million per year for each of the next five years. This revenue is essential to finance infrastructure, operations and maintenance, and meet fiscal policy requirements. Not making these necessary investments now will result in increased costs to future ratepayers and undermine generational equity. Inadequate preservation of our infrastructure through regular system repair and maintenance will burden future generations with even higher costs and potentially compromise the reliability and quality of our electric services. Annual rate increases are proposed to be implemented in January 2024, January 2025, January 2026, January 2027, and January 2028.

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Attachments:
1. Proposed Electric Rate Schedules
2. Electric Cost of Service Study
3. Presentation