



REVISED

City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: MAY 22, 2018

FROM: PUBLIC UTILITIES DEPARTMENT WARDS: ALL

SUBJECT: PROPOSED CHANGES TO ELECTRIC AND WATER RULES AND RATES FOR 2018-2023 AND CHANGES TO THE SHARING HOUSEHOLDS ASSIST RIVERSIDE'S ENERGY PROGRAM AND ENERGY SAVING ASSISTANCE PROGRAM

ISSUES:

Adopt a resolution approving changes to electric and water rules and rates for 2018-2023 and changes to the Sharing Households Assist Riverside's Energy Program and Energy Saving Assistance Program.

RECOMMENDATIONS:

That the City Council:

1. Adopt a resolution approving the 2018-2023 Electric and Water Rules and Rates;
2. Annually review the adopted rates; and
3. Approve changes to the Sharing Households Assist Riverside's Energy Program and Energy Saving Assistance Program.

BOARD RECOMMENDATION:

This report is being published on May 10, 2018, for the May 22, 2018, City Council Meeting.

On May 14, 2018, the Board of Public Utilities will conduct a public hearing to receive public input related to the electric and water utility five-year rate proposal and to consider and tabulate all written protests to the proposed water rate increases. They will also consider adoption of a resolution recording receipt of written protests to the proposed 2018-2023 Water Rates and, if no majority protest is received to those water rates, establishing the 2018-2023 Electric and Water Rules and Rates, as further described in that resolution. The Board of Public Utilities will also consider recommending that the City Council adopt a resolution approving the 2018-2023 Electric and Water Rules and Rates and approve changes to the Sharing Households Assist Riverside's Energy Program and Energy Saving Assistance Program.

If the Board of Public Utilities approves to forward this to City Council, we respectfully request that the City Council consider this item at the May 22, 2018 City Council meeting.

BACKGROUND:

In 2015, following a comprehensive strategic and financial planning effort, the City approved the “Utility 2.0” strategic plan for Riverside Public Utilities (RPU), available online: <http://www.riversideca.gov/utilities/utility20/popup.asp>.

In 2016 and 2017, the following related items were completed:

- RPU completed cost of service and rate design studies to finance Utility 2.0 objectives.
- Staff presented a rate proposal based on these studies to Board and City Council in August and September 2017, respectively.
- Staff conducted a citywide community outreach initiative on the rate proposal and special meetings to address agricultural and low-income customer concerns.
- The Board of Public Utilities and City Council received and conceptually approved a revised rate proposal in November 2017 and January 2018, and directed staff to: increase support for low-income and fixed income customers, establish an Agricultural Water Rates Task Force, plan annual rate reviews to avoid future “stair-step” rate increases, include information on the General Fund Transfer on utility bills, and return with further information on budget-based and summer water rates.

Relevant rate increase documents are online:

<http://www.riversideca.gov/utilities/rateplan/documents.asp>.

DISCUSSION:

OVERVIEW OF RATE PROPOSAL

RPU is proposing a five-year (2018-2023) electric and water utility rate plan that will result in a five-year system average annual rate increase of 3.0% for electric and 5.7% for water. For an individual customer, the rate increases and associated bill impacts will vary by customer class and consumption levels. For a typical residential customer, the estimated five-year annual electric rate increase will be \$3.02 per month, and the estimated five-year annual water rate increase will be \$3.21 per month.

Five-Year Rate Proposal

		Years 1-5 (2018-2022)	
Electric	July 2018		2.95%
	July 2019		3.0%
	July 2020		3.0%
	July 2021		3.0%
	July 2022		3.0%
Water	July 2018		4.50%
	July 2019		5.75%
	July 2020		5.75%
	July 2021		5.75%
	July 2022		6.50%

Based on system average, rate increases vary by customer class and consumption levels.

The proposed rate increase is required for the following reasons:

- To help fund infrastructure investments, including water pipeline replacements and upgrades to electric substation components and underground equipment;
- To meet costly State renewable energy regulatory requirements;
- To keep up with increasing operational costs; and
- To maintain strong bond ratings and low debt costs.

RPU is also recommending a redesign of its rates over a five-year period to better align with its cost of serving customers and its revenue requirements. The electric and water rate restructuring is designed not only to fund the ten-year infrastructure program but also to allow RPU to meet industry changes by providing better financial and revenue stability. These changes are reflected in the overall rate increases proposed. An outline of the specific key changes to RPU’s rate structure is attached.

SOURCES OF REVENUE AND OPERATIONAL SAVINGS

RPU has kept the proposed rate increases as low as possible by maximizing the use of ongoing non-retail revenues such as transmission revenues from the use of electric transmission lines, sales of excess renewable power, scheduling coordinator services to other agencies, conveyance of water and wholesale water sales to Western Municipal Water District, and leases of real property owned by RPU; reducing operating costs through use of new technologies, including installing solar networks to reduce water production costs; and proposing the use of a line of credit for electric and water that is a low-cost way to reduce necessary cash levels and increase RPU’s overall liquidity.

In addition, as part of the rate setting and budget development process, all RPU divisions were tasked with reviewing their budgets and reducing costs where possible. Savings were obtained through personnel and non-personnel reductions reflected in the upcoming two-year budget and five year financial plan totaling approximately \$4 million annually.

On April 23, 2018, the Board received a report and presentation on Riverside Public Utilities

proposed budget for Fiscal Years 2018/19 and 2019/20 including the elimination of five (5) unfunded positions and transfer of nine (9) RPU funded staff to City departments to consolidate various internal non-core services including communications and human resources for efficiency purposes. Following discussion, the Board moved forward with all recommendations, with the exception relating to the proposed reduction and/or transfer to the General Fund of 14 RPU positions to the City's administration, human resources, and marketing functions, pending consideration of this issue by the RPU Finance/Customer Engagement Committee. The total savings generated from the proposed personnel reductions and transfers equals approximately \$1.25 million in annual savings within the two-year budget. This \$1.25 million in annual budget savings was necessary to meet the cost structure of the proposed rate plan. Should any of these costs be added back, other operating or capital costs will need to be reduced in order to achieve the needed savings in both the two-year budget and the rate proposal.

LOW-INCOME AND FIXED INCOME ASSISTANCE

At the November 2017 rate workshop, the Board and City Council conceptually approved the development of an enhanced low-income and fixed income assistance program, including Sharing Households Assist Riverside Energy (SHARE) Program enhancements, Energy Savings Assistance (ESAP) Program enhancements, a comprehensive outreach campaign, and a needs assessment for developing additional program enhancements aligned with future rate increases. Proposed changes to the SHARE and ESAP programs, to be implemented in alignment with the rate increases, include:

- Enhance SHARE Program by implementing the following changes:
 - Increase eligibility from 150% to 200% of the Federal poverty level;
 - Change the \$150 annual electric bill credit to a \$14 monthly electric bill credit (up to \$168/year);
 - Add annual deposit assistance and emergency assistance (up to \$150/year);
 - Add a \$2.25 monthly water bill credit (up to \$27/year); and
 - Work with Community Action Partnership to create more convenient options for customers to sign up for program benefits.
- Enhance ESAP by implementing the following changes:
 - Align program eligibility with SHARE and partner agency programs; and
 - Automatically sign up customers who qualify for the SHARE program.
- Implement comprehensive multi-media and multi-lingual outreach campaign specifically targeting low-income and fixed income utility customers.
- Initiate a needs assessment to increase program assistance in parallel with rate increases, fully develop community partnerships, coordinate ongoing stakeholder process, develop benchmarks and metrics, and explore areas of program expansion/improvement inclusive of Housing First Program alignment.

More details on these proposed program enhancements are attached.

GENERAL FUND TRANSFER DISCLOSURE AND BUDGET-BASED AND SUMMER WATER RATES

Effective July 1, 2018, utility bills will include a notation which reflects that the total charges for water and electric services include an 11.5% transfer to the general fund.

A workshop will be scheduled for September, 2018 to discuss budget-based and summer water rates.

PROPOSITION 218 PROCEDURAL COMPLIANCE

Proposition 218 provides that, prior to adoption of increases to water rates, the City must provide notice to all affected water ratepayers and record receipt of all written protests to the proposed water rate increases. If the City receives written protests from a majority of the affected water ratepayers, the City cannot implement the proposed water rate increases. The City has provided the appropriate notice and the written protests will be tabulated at the close of the public hearing.

NEXT STEPS

New Rates Effective	July 1, 2018
Agricultural Water Rates Task Force Final Rate Alternative Recommendations – City Council Utility Services/Land Use/Energy Development Committee	July 1, 2019

FISCAL IMPACT:

Total additional revenue over the five-year period for this rate increase is projected to be \$175 million (\$137 million for the electric utility and \$38 million for the water utility), averaging \$35 million per year for each of the next five years. This revenue is essential to finance infrastructure, renewable energy, utility operation costs and gain financial stability in order to maintain strong bond ratings and low debt costs. Total planned debt issuances over the five-year period are \$223 million for the electric utility and \$119 million for the water utility.

The current combined water and electric utility budget for Fiscal Year 2017-18 is \$479.5 million. Not making these necessary investments now will result in increased costs to future ratepayers. Annual rate increases are proposed to be implemented in July 2018, July 2019, July 2020, July 2021, and July 2022.

The total estimated cost for the proposed changes to the electric low-income programs (SHARE and ESAP) are estimated to be \$2,058,000, which will be funded from existing public benefits funds formerly dedicated to solar rebates which are set to expire at the end of this calendar year as well as other available public benefit funds. The total estimated cost for the proposed water low-income program is \$150,000, which will be funded from wholesale water revenues.

Prepared by: Todd Jorgenson, Interim Utilities General Manager
 Certified as to availability of funds: Adam Raymond, Chief Financial Officer/City Treasurer
 Approved by: Marianna Marysheva, Assistant City Manager
 Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. City Council Resolution with Board Resolution attached (including revised Rule and Rate Schedules)
2. Recommended Rule and Rate Schedule Changes (red-line and clean)
3. Outline of Key Changes to Electric and Water Rate Structures

4. Enhanced Low-Income and Fixed Income Assistance programs
5. Electric and Water Cost of Service Studies
6. Notices of Public Hearing
7. Written Comments in Support of or in Protest to the Proposed Water Rate Increase
8. Presentation