



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: SEPTEMBER 19, 2023

FROM: PUBLIC UTILITIES DEPARTMENT WARDS: ALL

**SUBJECT: PUBLIC HEARING - ELECTRIC UTILITY FIVE-YEAR RATE PLAN PROPOSAL
AND PROPOSED CHANGES TO THE SHARING HOUSEHOLDS ASSIST
RIVERSIDE'S ENERGY PROGRAM AND ENERGY SAVING ASSISTANCE
PROGRAM**

ISSUES:

Conduct a public hearing to receive input related to the electric utility five-year rate plan proposal; consider adoption of a Resolution approving and establishing FY 2023/24 – 2027/28 electric rates, to be effective January 1, 2024; and consider approving an increase to the Sharing Households Assist Riverside Energy Program.

RECOMMENDATIONS:

That the City Council:

1. Conduct a public hearing to receive input related to the electric utility five-year rate plan proposal;
2. Adopt a Resolution approving and establishing FY 2023/24 – 2027/28 electric rates, to be effective January 1, 2024; and
3. Approve an increase to the Sharing Households Assist Riverside Energy Program from \$16 per month to \$20 per month for qualifying customers.

BOARD RECOMMENDATION:

On August 28, 2023, the Board of Public Utilities, with eight members present, conducted a public hearing to receive public input related to the electric utility five-year rate plan proposal. Following discussion, the Board voted six “ayes” to two “noes” to adopt a Resolution establishing FY 2023/24 – 2027/28 electric rates, to be effective January 1, 2024 and upon City Council approval; to recommend that the City Council conduct a public hearing to receive input related to the electric utility five-year rate plan proposal; adopt a Resolution approving the electric utility five-year rate plan proposal, as further described in the resolution; and approve changes to the Sharing Households Assist Riverside Energy Program.

LEGISLATIVE HISTORY:

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 a portion of the capital improvement program. The capital improvement program is funded by a combination of rates, bond proceeds, cash reserves, and developer fees.

City Charter section 1202(e) provides for the process for the adoption of utility rates. When necessary to ensure the continued recovery of costs for services and to secure reinvestment into the system infrastructure for long-term sustainability, the Board of Public Utilities (Board) has the authority to establish rates, which must then be approved by the City Council.

Proposition 26 (Prop 26), approved in 2010, amended Article XIII C (Voter Approval for Local Tax Levies) to the California Constitution. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax; that the amount is no more than necessary to cover the reasonable costs of the governmental activity; and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. This "fair and reasonable relationship" standard is supported by the Cost of Service approach used by the Public Utilities Department (RPU).

State law 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 the procedural requirements of Proposition 218. The Board of Public Utilities public hearing was published in the Press Enterprise on Thursday, August 10, 2023, and Thursday, August 17, 2023. In anticipation of the City Council public hearing on September 19, 2023, public hearing notices were mailed to electric utility ratepayers on Thursday, July 27, 2023, and published in the Press Enterprise on Wednesday, August 30, 2023, and Wednesday, September 6, 2023.

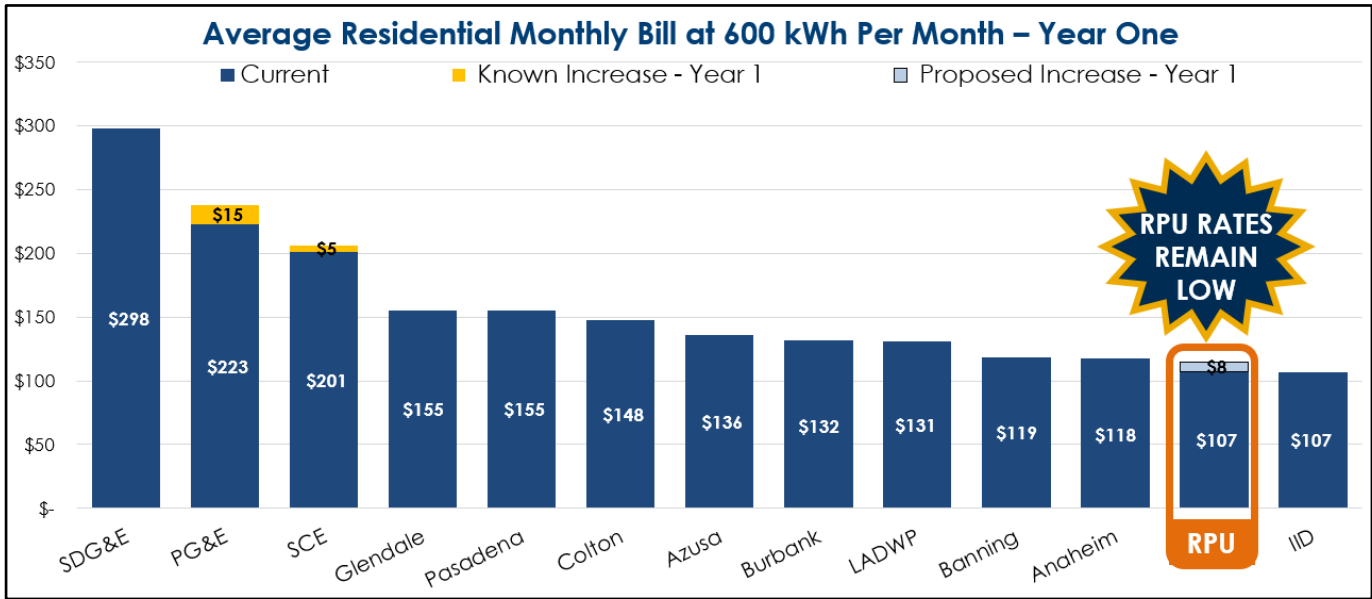
BACKGROUND:

About the Electric Utility

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 many general municipal operations, the electric grid is monitored by utility staff 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.



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.

Even with 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.

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.

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.

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%

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

**Current Rate Plan Expires
12/31/2023**

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.

Cost of Service Analysis

The proposed five-year Electric and Water Plans uses the cost of service analyses (COSA) to design the rates to appropriately recover the cost for providing the utility service. The COSAs determine the revenue required to fund the operations, maintenance, and improvements of the respective utilities within the framework required by California state law, and City and utility policies.

The COSAs compile the projected costs, customer usage demands and customer account growth rates by customer class over the term of the rate plan to calculate the revenue requirement to meet the necessary funding levels. The projections include costs not only to operate and maintain the utility systems but also include the costs for customer and administrative expenses, capital project debt service expenses and adjustments to meet minimum cash reserve levels established by Board- and City Council-approved policies.

Engagement

Board of Public Utilities

Staff began engaging with the Board of Public Utilities on the topic of rate increases at the Board’s September 27, 2021 meeting during which the Board approved an agreement with NewGen Strategies and Solutions, LLC. (NewGen) to complete an electric utility cost of service analysis (COSA) and rate design project for financial planning purposes.

In May and August 2022, the Board’s Public Utilities Customer Relations/Finance Committee and the full Board, respectively, received an update and provided feedback to staff on the COSA process. On June 12, 2023, the Board received information on the establishment of a five-year rate plan for the Electric utility, and conceptually approved the Electric utility five-year rate plan proposal. In response to questions raised by the Board during the June 12 meeting, staff

presented to the Board on the following three topics: **Fiscal Policies and Cash Reserves** in June; **Alternative Rate Scenarios** in July; and **Capital Improvement Projects** in August.

The following is a synopsis of the three follow-up presentations to the Board of Public Utilities. Each presentation is provided in its entirety as an attachment to this staff report.

Topic 1 - Fiscal Policies – Cash Reserve Policy

On June 26, 2023, the Board received an update on the RPU **Fiscal Policies – Cash Reserve Policy** (Policy), as it relates to the Water and Electric Utility Five-Year Rate Plan Proposals. The discussion addressed the purpose of the Reserve Policy to maintain long-term fiscal strength for RPU, defined and detailed the unaudited balances of all RPU reserve accounts, and advised on the calculation formulas for the minimum reserve targets for the electric and water funds. Additional questions were asked on topics such as bond ratings, how reserves affect bond ratings, what it would take to raise the utility’s bond rating, and what are the necessary elements to eliminate the Line of Credit.

Reserve levels are monitored throughout the fiscal year and reported in RPU monthly and quarterly financial reports. Reserve target (minimum) and maximum levels are analyzed annually, and an over/under reserve determination is made in conjunction with year-end financial results. These results are reported to the Board and City Council as part of the year-end financial report presentation. Should designated or undesignated reserve levels need adjustment due to new risk factors due to changes in the industry, these issues will be brought to the Board and City Council as part of the year-end report.

RPU treats the targeted reserves as practical minimums and allows reserves to increase or decrease as necessary within the minimum and maximum prescribed levels.

To the extent that undesignated reserves are above the target and below the maximum, the Board and City Council have the flexibility to direct staff to utilize those available funds to pay for capital projects (reducing the need for future debt), pay down unfunded liabilities such as pension obligations, decrease outstanding debt, or fund other strategic objectives. No other action by RPU would be required if reserves are between the minimum and maximum level unless directed by the Board and City Council.

If reserve funds exceed the maximum level, RPU would seek Board and City Council approval to use the excess to finance capital improvements on a pay-as-you-go basis, pay down existing debt, offset other long-term liabilities such as pension obligations, reduce rates or fund other strategic initiatives.

Reserve levels below the minimum targeted reserves will leave RPU exposed to significant operational risks. Should RPU draw down reserves below the minimum targeted level, RPU will implement plans to return reserves to their minimum targeted levels **within three years**. Such plans will be provided within 12 months.

The presentation on June 23, 2023 provided the Board with Policy history, and definitions and examples of RPU’s restricted and unrestricted reserves:

Restricted Reserves are established and utilized for narrowly defined purposes as specified by legal restrictions, bond covenants, and other regulations or ordinances.

Restricted Reserve	Definition
San Onofre Nuclear Generating Station (SONGS) Decommissioning	Riverside owns 1.79% of SONGS Units 2 & 3, within Camp Pendleton, that was permanently retired on June 7, 2013. This reserve was established in June 2017, for Riverside’s share of the decommissioning cost obligations that are held with the trustee for the decommissioning costs.
Regulatory Requirements Reserve (Cap and Trade auction proceeds)	Funds set aside for regulatory requirements for greenhouse gas allowances and low carbon fuel standard proceeded as legally restricted for specific purposes.
Unspent Bond Proceeds to Fund Capital Projects	Funds restricted by bond covenant, allowable only for qualified approved capital projects
Bond Redemption Reserve (Debt Service)	This reserve is set aside for future bond payments that are governed by bond covenants.
Electric Public Benefits Fund	Assembly Bill 1890, adopted in 1996, monthly surcharge of 2.85% of the total electric charge to be used for low-income customer assistance, energy efficiency and conservation programs, renewable resources and energy research and development.

Designated Reserves are that portion of unrestricted reserves that meet specific purposes set aside by the Board and City Council. Designated reserve funds ensure stable service delivery, meet future needs, and protect against financial instability. Designated reserves may be held for specific capital and operating purposes.

RPU will use designated reserves to mitigate the impacts of known and impending exposures. The withdrawal and replenishment of Council/Board-approved designated reserves and their allowable uses will be tracked individually, but the specific use of designated reserves falls outside the scope of this Policy and is subject to Board and Council approval.

Designated Reserve	Definition
Customer Deposits	Monies held on behalf of RPU’s customers as required to be utilized if a customer fails to pay their utility bill.
Additional Decommissioning Liability	Established in June 1998, and updated March 2016 to accumulate extra funds held at the City (not with the SONGS trustee) for the uncertainty of costs associated with the SONGS Decommissioning activities.
Electric Reliability	Established in December 2007 to fund the debt service and capital expenditures for construction of internal electric generation and purchase of state transmission grid capacity, annual repair and improvements to internal generation facilities, and fund internal RPU sub-transmission system upgrades for RTRP improvements. The funds are received from retail customers through the Reliability Charge on each monthly bill.
Mission Square Improvement	Established June 2015 to accumulate funds for major improvements to the Mission Square facility; funded by an annual contribution equal to 2% of the building value up to a maximum reserve equal to 25% of the building value.
Capital Repair/Replacement	Established March 2016 to accumulate amounts for repairs and replacement of facilities, vehicles, and technology outside of the Capital Improvement Program.

Dark Fiber	Established July 2017 to accumulate proceeds from fiber leasing activity and account for expenditures of the dark fiber program.
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Undesignated Reserves are the remaining unrestricted reserves that may be used for any lawful utility purpose and have not been designated for specific capital and operating purposes; however, maintaining a proper level of undesignated reserves is critical to ensure the utility can meet its fluctuating cashflow demands and mitigate financial volatility. The following Undesignated Reserve Policy addresses the levels, use and replenishment of this type of unrestricted reserve.

The Undesignated Reserve Policy states RPU will have sufficient undesignated reserves to maintain or improve its credit ratings, ensure that operating and maintenance costs will be paid in a timely manner, to pay debt service obligations, and to invest in needed capital improvements and equipment replacement on a timely basis. In addition, RPU will maintain sufficient reserves to minimize rate increases due to market volatility, weather impacts on demands, emergencies (such as natural disasters), and regulatory changes throughout the rate plan period.

The Policy provides minimum and maximum levels of undesignated reserves. Each of the areas of undesignated reserves include considerations for evaluation to determine the appropriate reserve levels. RPU maintains such monies in each utility’s undesignated reserve. These reserve allocations are consistent with industry standards for similarly rated electric utilities. Each component of the reserves is sized at less than the maximum possible exposure for each component because it is unlikely several of the risks each enterprise faces would materialize simultaneously. The following table represents the Electric utility undesignated reserve definitions.

Undesignated Reserve	Definition
Operating (Working Capital)	Ensures sufficient resources to pay budgeted operating and maintenance expenses, including power supply costs, recognizing the timing differences between payment of expenditures and receipt of revenues.
Rate Stabilization	Mitigates rate shock due to temporary and transitional regulatory changes, loss of a major resource, sharp demand reduction or market volatility.
Emergency Capital	Provides funds to ensure ability to repair system after an emergency or natural disaster such as a flood, earthquake or major windstorm
System Improvements Capital	Provide funds to ensure continuity of construction over fiscal years to be reimbursed by bond proceeds or other resources.
Debt Service	Ensures ability to make debt service payments in an extreme event that may impact RPU’s ability to provide services, thus impacting revenues at a time critical infrastructure repairs are needed to restore systems. The Debt Service Reserve is intended to prevent an event where RPU would be unable to pay its debt service obligations during such emergencies, or extreme market disruptions.

Topic 2 - Alternative Rate Scenarios

On July 10, 2023, the Board reviewed potential fiscal impacts of alternative rate scenarios from the currently proposed Water and Electric Utility Five-Year Rate Plan Proposals. The discussion included requests from the Board to model potential scenarios to demonstrate the impact of the alternative rates on the financial health of the Electric and Water utilities. The models were estimates, assuming no changes to the respective Cost of Service Analysis (COSA) assumptions included in the rate plan proposals. While the alternative annual residential electric rate increase

of 6.25% smoothing scenario does meet the cash reserve fiscal funding goals, the impact of the compounded annual rate increases was 10% greater than the proposed plan for the Residential customer class. The additional models did not result in changes to the staff recommendations for the rate plans.

The alternative “smoothing” rate model estimates (annual increases of 5% or 6.25%) did not include any changes to the respective COSA assumptions already provided in the rate plan proposals. The models did not result in changes to the staff recommendations for the rate plans as presented to the Board on June 12, 2023, or to City Council on June 27, 2023. There are no alternative schedules that also met all of the COSA goals including meeting minimum Board- and City Council-approved minimum reserve levels.

The “5% Annual Scenario” indicates that the utility does not generate sufficient revenues to meet the minimum rate plan reserves. **The “6.25% Annual Scenario” indicates that the utility does generate sufficient revenues to meet the minimum rate plan reserve requirement;** however, the cumulative rate plan impact at the 6.25% annual level after five years is greater than the proposed rate plan adjustments. The result is the staff recommended and the Board conceptually approved electric rate plan meeting all operating, maintenance, debt service and reserve balance requirements at the lowest cumulative five-year cost.

“Smoothing” rates across the term of the proposed rate plan will result in under-collection of revenues. The five-year level rate increase of 6.25% instead of the proposed (7% for first 3 years and 2% for the final 2 years) is projected to result in higher cumulative rates and customer impacts (an additional 7.9%) to achieve the same Revenue Requirement goal of meeting minimum policy reserve levels in year 5 of the rate plan.

Meeting the requirements of the Board- and City Council-approved Reserve policies is considered a benchmark goal in the COSA.

Topic 3 - Capital Improvement Project Accomplishments from Prior Rate Plan

On Aug 14, 2023, the Board received an update on the Capital Improvement Plan budgets and expenditure for fiscal years 2018-2023 and the planned capital investments to be funded by the currently proposed for the Electric and Water Utility Five-Year Rate Plan Proposal.

The City of Riverside’s Capital Improvement Program (CIP) is a multi-year financial plan for the repair, replacement, and/or construction of municipal facilities and infrastructure. The City’s CIP Plan strategically identifies both funded and unfunded capital improvement projects over a period of five years. Projects are budgeted during the City’s two-year budget cycle or amended by the Board of Public Utilities and City Council as required in the interim.

CIP is defined as a long-term investment of funds to improve, repair, or replace an existing capital asset and/or construct or acquire a new capital asset. A capital project is a city resource and/or property with a monetary value of at least \$20,000 and an initial useful life of at least 10 years.

Electric Utility Ten-Year CIP

On January 18, 2018, the City Council conducted a joint workshop with the Board to receive additional information regarding the electric and water utility five-year rate proposal 2018-2022; to conceptually approve the electric and water utility five-year rate proposal 2018-2022 utilizing the Utility 2.0 Strategic Plan Modified Option 1 for electric and water utility infrastructure improvements over the next ten years, with rates approximately 35% lower than the original five-year rate proposal based on Option 3 infrastructure improvements; and to prepare all documents

necessary for public noticing of the rate proposal, to update proposed rate schedules and fiscal policies to reflect changes due to the rate proposal, and to update any other documents necessary for the public hearing to be held before the Board of Public Utilities on May 14, 2018, and final rate recommendations to the City Council on May 22, 2018, with new rates effective July 1, 2018. Following discussion, it was approved to conceptually approve the electric and water utility five-year rate proposal 2018-2022 utilizing the Utility 2.0 Strategic Plan Modified Option 1 for electric and water utility infrastructure improvements over the next ten years, with rates approximately 35 percent lower than the original five-year rate proposal based on Option 3 infrastructure improvements, with yearly review by the City Council.

RPU prepares two-year operating and five-year capital budgets, which serve as RPU’s revenue and expenditure plan. These budgets are prepared in accordance with existing City, Board of Public Utilities, and City Council policies, procedures, and guidelines. RPU’s budget and corresponding CIP investments from the 2018 10-year CIP program, have been approved by Board and City Council.

City Council Date	Budget Fiscal Years	CIP Fiscal Years	CIP report link
6/18/2019	2019 – 2020 (amended)	2019 - 2024	https://riversideca.gov/finance/PDF/2018/2018-2023%20Capital%20Improvement%20Plan.pdf
6/16/2020	2020 – 2021	2020 -2021	https://www.riversideca.gov/finance/PDF/budget-2021/FY2020_2021_Capital_Improvement_Plan.pdf
6/22/2021	2021 -2022	2021 - 2022	https://www.riversideca.gov/finance/PDF/budget-2022/2022%20CIP.pdf
6/21/2022	2022 - 2024	2022 -2024	https://riversideca.gov/finance/2023%20CIP.pdf

There were no changes to CIP for fiscal year 2023/24 Budget as approved by City Council on June 27, 2023.

Electric CIP

The Electric Plan rate increases support investment in the electric system. The following is a summary of the 2018 investment plan, the 2018-2023 expenses, and the projects to be funded by the currently proposed Electric Utility Five-Year Rate Plan.

Project Category	10 Year Plan (2018-2028)	Budgeted (2018-2023)	Expenditures 2018-2023	5 Year Plan (2024-2028)
1. Overhead Projects	\$89,208,000	\$30,428,289	\$10,895,370	\$48,947,000
2. Underground Projects	\$139,326,000	\$29,966,569	\$18,973,956	\$75,125,000
3. Substation Projects	\$88,100,000	\$30,448,024	\$38,021,033	\$69,683,000*
4. System Automation	\$96,574,000	\$45,189,662	\$26,110,384	\$83,162,000
5. Recurring Projects	\$115,037,000	\$94,902,173	\$72,273,033	\$38,582,000
Total:	\$528,245,000	\$230,934,717	\$166,273,776	\$315,499,000
Rate Increase:	3%			5%

*+/- \$40 million Hunter Substation will be funded with carryovers and/or using a portion of \$69,683,000 Substation Project funding in the 2023 5-Year Rate Plan. No additional CIP in the proposed five-year Electric Rate Plan.

1. Overhead Projects: \$89,208,000 10-Year Investment (FY 2018-2028)
 - 1,270 streetlight retrofits
 - 3,080 poles and related equipment replacements
 - 600 overhead switches replacements

- Convert 29 4kV circuits to 12kV in 6 years

Completed as of June 30, 2023, \$10,895,370 (FY 2018-FY 2023)

- 811 streetlights replaced
- 900 poles and related equipment replaced
- 200 overhead switches replaced
- 10 circuits converted to 12kV

Planned: \$48,947,000 (FY2024-2028)

- 376 streetlight retrofits
- 1,540 poles and related equipment
- 400 overhead switch replacements
- 15 voltage conversions (4kV to 12kV)

2. Underground Projects: \$139,326,000 10-Year Investment (FY 2018-2028)

- 62 miles of cable replacement
- 262 vault replacements
- 116 switch replacements

Completed as of June 30, 2023, \$18,973,956 (FY 2018-FY 2023)

- 18 miles of cable replaced
- 4 vaults replaced
- 10 switches replaced

Planned: \$75,125,000 (FY2024-2028)

- 25 miles of cable replacement
- 30 vault replacements
- 25 switch replacements
- 20 Distribution Line Extension and Line Rebuilds

3. Substation Projects: \$88,100,000 10-Year Investment (FY 2018-2028)

- 7 transformer replacements
- 5 switchgear replacements
- 70 breaker replacements
- 570 relay replacements

Completed as of June 30, 2023, \$38,021,033 (FY 2018-FY 2023)

- 3 transformers replaced and 2 transformers in the procurement process
- 2 switchgears replaced and 12 capacitors replaced
- Approximately 280 electromechanical relays with 80 digital relays replaced
- 45 circuit breakers replaced and upgraded

Planned: \$69,683,000 (FY2024-2028)

- Harvey Lynn Switchgear 5 Relay Replacement (Phase 2)
- Riverside Switchgear 3,4&5 phase 4 Upgrade
- Harvey Lynn Substation Upgrade Project
- Hunter Substation Replacement Project
- La Colina Substation Upgrade (Phase 2)
- La Colina - University Line Relay Replacement
- Riverside Breaker 52-4
- Riverside Transformer T6 Addition
- Substation Automation System Upgrades (Phase 2)
- Orangecrest Relay Upgrades (SWGR 1 & 2)
- Plaza Substation 69kV Breaker Replacement
- Plaza Substation Ring Bus Project & Retirement of T1 & T2
- Battery Charger Replacement Program

- Springs - Orangecrest Fiber Cable Replacement
- Replace Radio Sites Generators
- System - Wide relay Improvement

4. System Automation: \$96,574,000 10-Year Investment (FY 2018-2028)

- Citywide streetlight LED lamp replacement program
- Electric vehicle charging stations
- Substation and distribution system monitoring and control

Completed as of June 30, 2023, \$26,110,384 (FY 2018-FY 2023)

- Replaced over 25,000 high pressure sodium lamps with new LED luminaires
- Established electrical service four (4) for privately owned electric vehicle charging stations
- Completed substation teleprotection and substation automation projects, including Remote Terminal Units (RTU) upgrades.

Planned: \$83,162,000 (FY2024-2028)

- 6,000 Citywide streetlight LED lamp replacement program for Historic Districts
- Electric vehicle charging stations and Infrastructure upgrades
- Substation and distribution system monitoring and control
- Outage Management System
- Advanced Distribution Management System

5. Recurring Projects: \$115,037,000 10-Year Investment (FY 2018-2028)

Facilities needed to serve new customers and expanded load, including:

- Services and meters for new customers
- Line extensions and rebuilds
- Overhead to underground conversions

Completed as of June 30, 2023, \$72,273,033 (FY 2018-FY 2023)

- Issued to Construction over 710 new Electric Service designs and meter panel upgrades for new customer/developer driven projects, including but not limited to new line extensions and overhead to underground conversions.

Notable projects include:

- Two new Feeder Line Extensions for the California Air Resources Board (CARB) Headquarters Facility
- UCR North District Phase 1 Line Extension
- Nordstrom Feeder Line Extension
- The Exchange Development Line Extension
- Iowa Avenue Road Widening and Overhead to Underground Conversion
- UCR Linden Avenue Overhead to Underground Conversion Phase 1

Planned: \$38,582,000 (FY2024-2028)

Facilities needed to serve new customers and expanded load, including:

- Services and meters for new customers
- Line extensions and rebuilds
- Overhead to underground conversions

Community Engagement

To engage with the community on proposed rate increases, a number of City-sponsored community outreach events occurred from May through August. The City Manager made presentations to community groups and residents, and provided opportunity for Q&A and conversation during each event.

Event	Date
Greater Riverside Chamber of Commerce (GRCC)	May 25, 2023
Building Industry Association (BIA)	June 7, 2023
Residents for Responsible Representation (RRR)	June 14, 2023
Downtown Area Neighborhood Alliance (DANA)	June 19, 2023
Mission Grove Neighborhood Association	July 10, 2023
Neighbors of the Wood Streets (NOWS)	July 13, 2023
Neighbors Better Together (NBT)	June 25, 2023
City Sponsored – Orange Terrace Center Ballroom	July 31, 2023
City Sponsored – La Sierra Senior Center Ballroom	August 3, 2023
City Sponsored - Bobby Bond/Cesar Chavez Community Center Auditorium	August 8, 2023

Community Outreach through Social Media and Webpage

Social media for the proposed rates for electric, water, and solid waste resulted in 75,094 “impressions” (the number of times seen) and 4,032 “engagements” (number of interactions with the content including comments or shares) in July and August. The proposed five-year rate plan has been available continuously on the City website (<https://www.riversideca.gov/proposed-rates>) along with staff reports, presentations, calendar/timeline of events and other related resources.

Relevant electric utility rate plan documents and information are available online:

<https://www.riversideca.gov/proposed-rates>

DISCUSSION:

Overview of Rate Proposal

RPU’s electric utility is faced with many current and future challenges including aging infrastructure, increasing natural gas and renewable power supply costs, and increased inflation of 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 peak load demands driven by prolonged heat waves, 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 volatility of energy costs of between 60% to 80% in the California Independent System Operator (CAISO) market.

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, capital, and debt costs and the need for additional funding to address declining reserve levels, pressures on financial metrics, and meeting fiscal policy requirements.

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%.

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

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. 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. The new substation will operate using new industry technologies to improve system reliability while meeting the existing power demands, supporting future development in the area, and maintaining power reliability.

Electric Capital Improvement Plan Investments

	Electric Capital Investments (in millions)					Total
	Adopted 23-24	-----Planning Purposes-----				
	23-24	24-25	25-26	26-27	27-28	
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

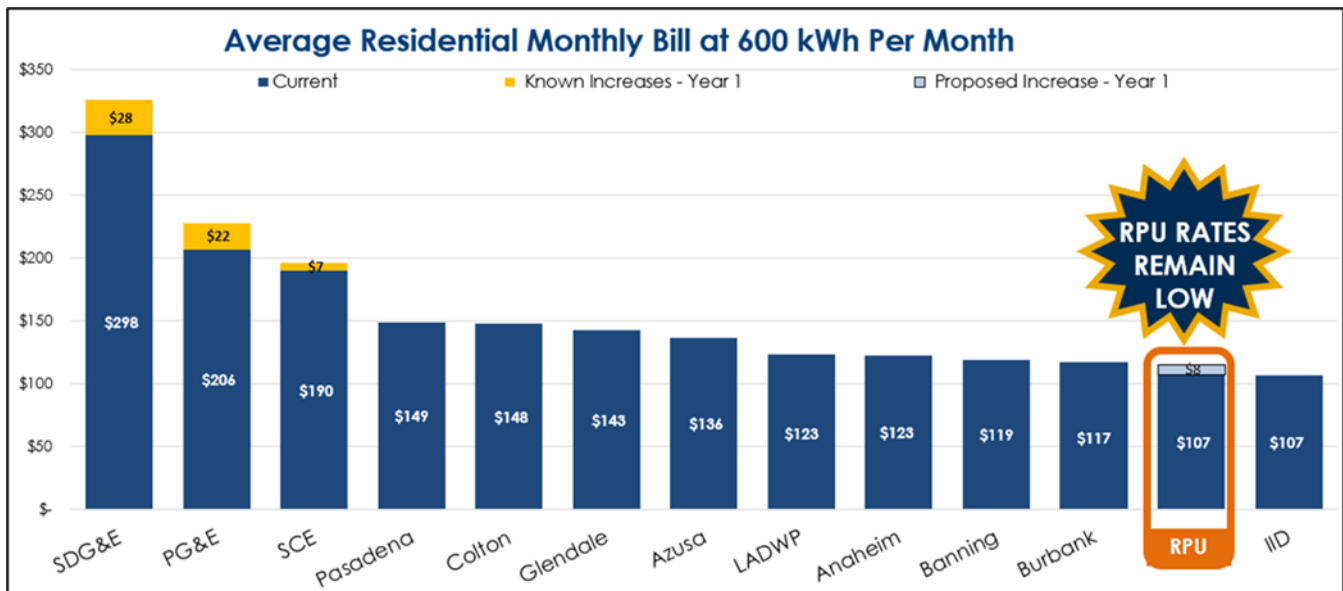
Proposed Electric Rate Increase for a Typical Residential Customer

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.

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 extremely competitive within the region. A typical residential electric customer using on average 600 kWh per month, would pay 78% more if served by Southern California Edison.



Proposed Electric Rate Increase for Typical Commercial Customer

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.

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%

Cash Reserves

RPU’s reserves are either restricted or unrestricted and are classified into three categories.

Restricted Reserves are established and utilized for narrowly defined purposes as specified by legal restrictions, bond covenants, and other regulations or ordinances.

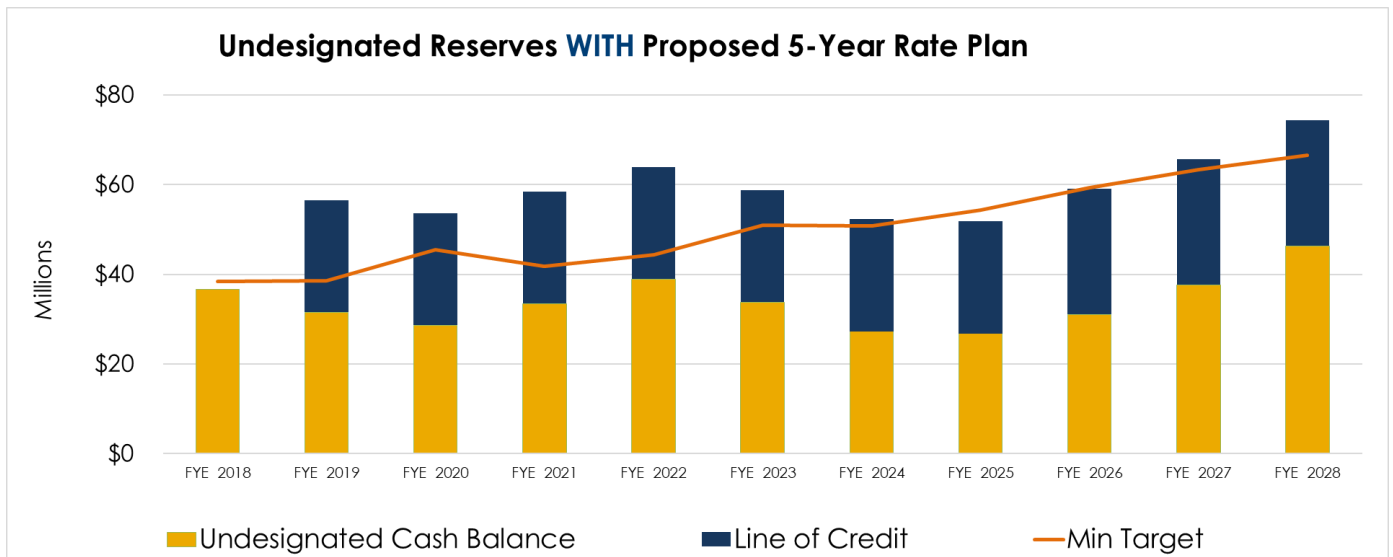
Designated Reserves are that portion of unrestricted reserves that meet specific purposes set aside by the Board and City Council. Designated reserve funds ensure stable service delivery, meet future needs, and protect against financial instability. Designated reserves may be held for specific capital and operating purposes.

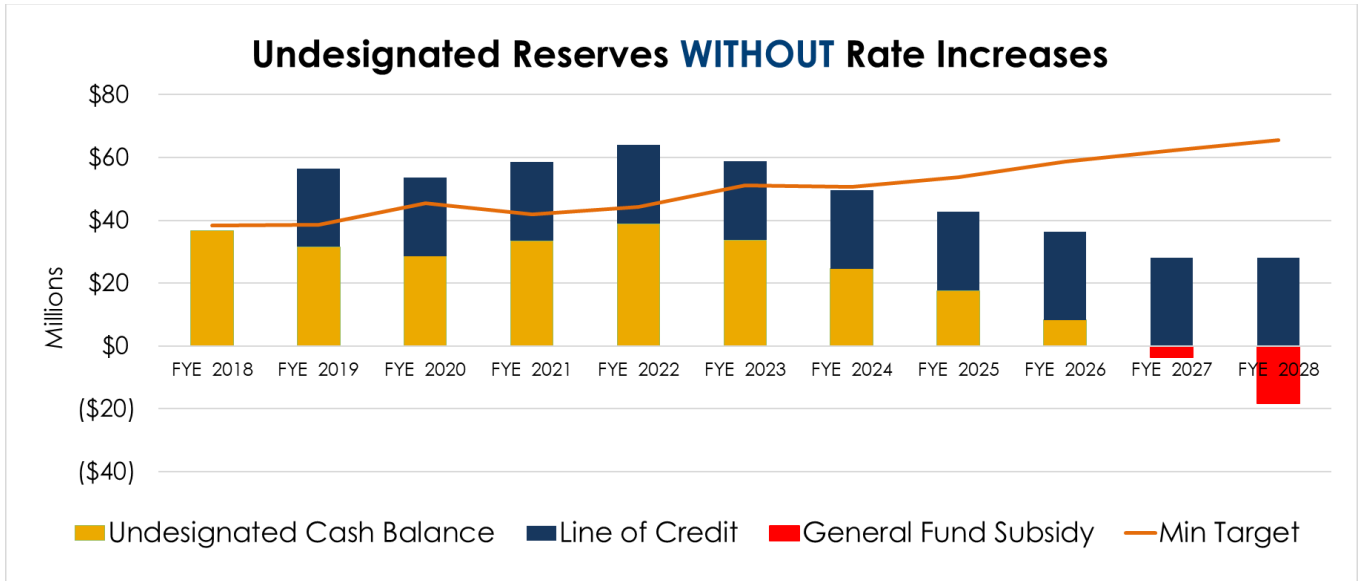
Undesignated Reserves are the remaining unrestricted reserves that may be used for any lawful purpose and have not been designated for specific capital and operating purposes; however, maintaining a proper level of undesignated reserves is critical to ensure the utility can meet its fluctuating cashflow demands and mitigate financial volatility.

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 is project to fall below minimum target reserve levels for a couple of years then returning to above minimum target reserve levels within the timeframe required by the reserve policy.

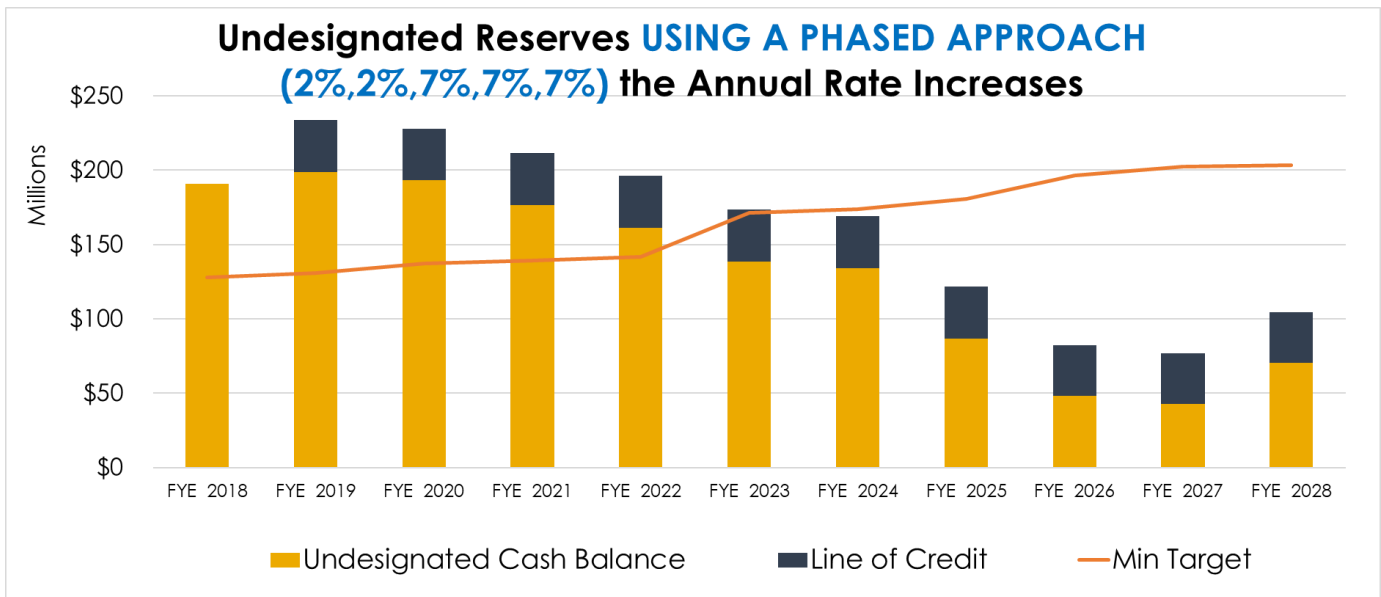
Without a rate increase, the electric utility will completely spend down undesignated reserves by June 2027 and require a subsidy from the General Fund to continue operations and carry out planned capital infrastructure projects. Reserve levels dropping below minimum required targets will require significant reductions to expenditures, including reductions in RPU’s current capital program projects, 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 policy levels, RPU’s bond ratings would be expected to fall and its cost of borrowing will increase, costing future ratepayers millions in higher debt payments. The below chart 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.

The following charts illustrate the impacts to Undesignated Reserves with and without the proposed five-year electric utility rate plan.





The following table shows that flipping the rates from 7-7-7-2-2 to 2-2-7-7-7 for the rate plan indicates that RPU will not meet its minimum reserve level targets in any of the 5 years of the rate plan.



Proposed Increases to Low-Income Electric Assistance Program

RPU established the Sharing Households Assist Riverside’s Energy (SHARE) program in 1989 to provide low-income residents with utility bill assistance. This low-income assistance program assists 4,880 electric customers with monthly bill assistance and a \$250 annual credit for either deposit or disconnection payment assistance. Staff recommends increasing the program from \$16 per month to \$20 per month for qualifying customers. The income qualification for the Sharing Households Assist Riverside’s Energy (SHARE) Program is 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 increases to the SHARE monthly credit

Year	Monthly Electric Credit
As of January 1, 2023	\$16
Proposed for January 1, 2024	\$20
Proposed for January 1, 2025	\$24
Proposed for January 1, 2026	\$28
Proposed for January 1, 2027	\$29
Proposed for January 1, 2028	\$30

The electric utility’s low-income assistance program is included in the annual electric utility public benefits fund budget as funded by customer donations and the monthly public benefits charge.

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:

Additional annual revenue over the five-year period averages \$54.6 million per year for each of the next five years. This revenue is essential to finance construction of new 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.

The total estimated cost for the proposed changes to the electric low-income programs (SHARE) are estimated to be \$264,000 annually in year 1 and up to \$924,000 annually by year 5, which will be funded from available Public Benefit funds and included in future budgets.

Prepared by: Todd Corbin, Utilities General Manager
Certified as to availability of funds: Edward Enriquez, Assistant City Manager/Chief Financial Officer/City Treasurer
Approved by: Rafael Guzman, Assistant City Manager
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Resolution
2. Resolution Attachment 1 – Resolution of the Board of Public Utilities
3. Proposed Electric Rate Schedules
4. Electric Cost of Service Study
5. Cash Reserve Policy presentation from June 26, 2023
6. Alternative Rate Scenarios presentation from July 10, 2023
7. CIP presentation from August 14, 2023
8. Notice of Public Hearing
9. Presentation