



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: JULY 10, 2015

ITEM NO: 9

File ID – 15-2155 - C

SUBJECT: **AGREEMENT FOR PROFESSIONAL CONSULTANT SERVICES FOR ELECTRIC COST OF SERVICE ANALYSIS AND RATE DESIGN PROJECT FOR \$125,000**

ISSUE:

The issue for Board of Public Utilities consideration is to approve a Professional Consultant Services Agreement for an Electric Cost of Service Analysis and Rate Design Project for the Electric Utility.

RECOMMENDATION:

That the Board of Public Utilities approve a Professional Consultant Services Agreement with Leidos Engineering, LLC., of Denver, Colorado in an amount of \$125,000 for the purpose of conducting an Electric Cost of Service Analysis and Rate Design Project.

BACKGROUND:

The electric industry is rapidly evolving. To address these changes, electric utilities are changing their business models. As Riverside Public Utilities (RPU) plans for its future, a cost of service analysis and rate design project is necessary for financial planning purposes as well as to design future rate adjustments. RPU has identified issues in determining revenue requirements and designing rates due to the changing electric utility industry. These issues include:

- Changing Regulatory and Climate Conditions – The impacts of distributed generation and renewable energy portfolio requirements need to be considered along with changes in local, state and federal regulatory requirements.
- Cost Components – The costs of production, transmission, distribution and capital improvements to meet the Electric Utility's aging infrastructure needs, debt service and contributions to the general fund are all components of rates. These components will be analyzed in a comprehensive cost of service analysis to determine current and forecasted overall revenue requirements. While a majority of the Electric Utility's costs are fixed, most of the revenue from retail sales are variable. The project will consider the ability to adequately recover fixed costs as conservation and energy efficiency cause sales to decrease.
- Cost Allocation Between Customer Rate Classes – It is essential to identify the cost to serve the City's customers and to ensure equitable allocation of cost responsibility among the customer classes.
- Conservation and Energy Efficiency – Future pricing will be based on the new cost of service analysis and will consider the impact of conservation and energy efficiency goals.

RPU's previous electric cost of service analysis was completed in 2010. Because of the significant changes in the electric industry, an updated electric cost of service analysis and rate design project is necessary to address the issues in determining revenue requirements and designing future rates.

On March 20, 2015 staff issued a Request for Proposals (RFP) to consulting firms with experience in preparing an electric cost of service analysis and rate design projects. The project will provide a comprehensive review of all rate schedules, forecast of future revenue requirements, equitable allocation of costs among customer classes, an electric utility rate trends study and a rate design recommendation.

Four proposals were received on April 14, 2015 from the following consultants:

- Black & Veatch Corporation, Overland Park, KS;
- Burns & McDonnell Engineering Company, Inc., Kansas City, MO;
- Leidos Engineering, LLC, Denver, CO; and
- Utility Financial Solutions, LLC, Holland, MI.

RPU staff reviewed all proposals based on the criterion described in the RFP and recommended interviewing all four consulting firms. Following the interview process, the review committee utilized a predetermined scoring methodology, as outlined in the RFP, to rank the consultants. The review committee also conducted interviews with the top two consultants to review and score the usefulness and flexibility of consultant's proposed models. Based on the final scores, the review committee recommends Leidos Engineering, LLC (Leidos) to perform the project.

Leidos specializes in electric cost of service analyses and rate studies. Staff is recommending Leidos due to their extensive experience on similar studies and recent work in California – for the Redding Electric Utility – and throughout the country including South Carolina Public Service Authority (Santee Cooper) in South Carolina, Farmington Electric Utility System in New Mexico and Frankfort Electric Plant Board in Kentucky. The Project Manager also leads the Electric Utility Consultants, Inc. cost of service and rate design course attended by policy makers, attorneys and utility industry professionals.

RPU's recent positive experience with Leidos was a factor in this recommendation. Leidos' previous work experience with the City includes completing the Technology Strategic Plan, providing them a level of familiarity with RPU's current technology and its future plans, and how RPU's technology can play a role in rate design in the future. Staff also conducted reference inquiries with entities that had previously, or are currently, contracted with Leidos for similar studies. All reference inquiries had positive results.

FISCAL IMPACT:

The total cost of the study is estimated at \$125,000. Funds are budgeted and available for this project in the Administration Professional Services Account No. 6000000-421000.

Prepared by:	Laura Chavez-Nomura, Public Utilities Assistant General Manager/Finance
Approved by:	Girish Balachandran, Public Utilities General Manager
Approved by:	John A. Russo, City Manager
Approved as to form:	Gary G. Guess, City Attorney

Certifies availability of funds:	Laura Chavez-Nomura, Public Utilities Assistant General Manager/Finance
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Attachment:	Professional Consultant Services Agreement
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