



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: OCTOBER 24, 2016

ITEM NO: 8

SUBJECT: SECOND AMENDMENT TO THE PROFESSIONAL CONSULTANT SERVICES AGREEMENT WITH CAROLLO ENGINEERS, INC FOR WATER COST OF SERVICE AND RATE DESIGN PROJECT - EXTENDING THE TERM TO APRIL 30, 2018 AND INCREASING THE CONTRACT AMOUNT BY \$75,110, FOR A TOTAL OF \$224,945

ISSUE:

The issue for Board of Public Utilities consideration is approval of a Second Amendment to the Professional Services Agreement (Agreement) with Carollo Engineers, Inc., of Riverside, California, for the Water Cost of Service Analysis and Rate Design Project., to extend the term of the Agreement to April 30, 2018 and increase the Agreement by \$75,110 to a revised contract amount of \$224,945.

RECOMMENDATION:

That the Board of Public Utilities approve the Second Amendment to the Professional Service Agreement with Carollo Engineers, Inc., of Riverside, California, for the Water Cost of Service Analysis and Rate Design Project, to extend the term of the Agreement to April 30, 2018 and increase the Agreement by \$75,110 to a revised contract amount of \$224,945.

BACKGROUND:

On May 15, 2015, the Board of Public Utilities (Board) approved the Agreement with Carollo Engineers, Inc., of Riverside, California, (Carollo), for the purpose of conducting a Water Cost of Service Analysis and Rate Design Project ("the Project") for Riverside Public Utilities. The Project is a critical component of Utility 2.0 and the Thriving Financially Roadmap. The scope of the project focuses on three areas:

- Phase 1 – Cost of Service Analysis at Current Rates;
- Phase 2 – Water Utility Rate Trends Analysis; and
- Phase 3 – Rate Design Recommendations.

The work for the three phases is a coordinated effort between RPU staff and Carollo. Current tentative presentation dates to the Board are June through August 2017.

Conceptual approval of Utility 2.0 and incorporating numerous financial scenarios into the 10 year proforma resulted in a delay in schedule from the original implementation date and has required additional effort by RPU staff and Carollo. Additional effort is also required due to the complexity of the analysis of future rate options, impacts of the mandatory emergency drought response restrictions and determining rate alternatives. These issues combined required additional meetings between RPU staff and Carollo. The First Amendment to the Agreement with Carollo approved on May 9, 2016 extended the contract through December 31, 2016 and increased the original Agreement by \$24,462 to a revised contract amount of \$149,835.

During the course of the Project, updated information has become available that should be incorporated into the Project including the following:

1. Updated retail sales forecasts
2. Current customer usage data and billing information

3. Updated 10 year financial proforma
4. Consideration of additional rate design alternatives

The updated retail sales forecasts include the impacts of conservation and emergency drought regulations. After over a year of mandatory emergency water conservation regulations, in June 2016, the City Council self-certified to a zero conservation standard and adopted a resolution declaring Stage 1 of the Water Conservation Ordinance indicating normal water supply conditions and adopted an ordinance to amend Riverside Municipal Code to address the State Water Resources Control Board extended emergency drought regulations. Upon declaring Stage 1 of the Water Conservation Urgency Ordinance, it is anticipated that water use and associated water revenue will increase. The amount of the increase will depend on many factors including customer behavior response, permanent reduction in water use due to turf removal and native plant landscaping and other conservation tools implemented during the drought as well as weather patterns.

Current customer usage data from the new customer information system will also be incorporated into the Project. The monthly customer usage data from the previous customer information system included activity through fiscal year ending June 30, 2014. The new monthly customer usage data will provide customer account activity through fiscal year ending June 30, 2016 and include current trends in retail customer sales. The customer usage data will assist in allocating costs to customer classes to determine revenue requirement by class and to determine the impact of alternative rate designs by customer class and individual customer.

The Project will also incorporate the updated 10 year financial proforma which includes current financial information, updated retail sales forecasts, and revised financial and capital improvement plan projections, all of which incorporate Utility 2.0 and the various options presented to Board and City Council. In addition, changes in the water utility industry have occurred during the course of the project, including new rate structures to address utility concerns across the country. Additional rate design alternatives may be considered and analyzed including methods of recovering fixed costs and rate adjustment mechanisms for operating or capital costs such as energy, treatment, or regulatory compliance.

The Second Amendment to the Agreement with Carollo will extend the contract through April 30, 2018 and increase the Agreement by \$75,110 to a revised contract amount of \$224,945 to provide sufficient time and funding for project completion and presentations to the Board and City Council.

FISCAL IMPACT:

The total cost of the amendment is estimated to be \$75,110. Sufficient funds are available in Public Utilities Administration Professional Services Account No. 6000000-421000.

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Approved by: Girish Balachandran, 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, Utilities Assistant General Manager/Finance

Attachment: Second Amendment to Professional Consultant Services Agreement – Carollo Engineers, Inc., of Riverside, California