



City of Arts & Innovation

City Council Memorandum

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TO: HONORABLE MAYOR AND CITY COUNCIL DATE: NOVEMBER 28, 2017

FROM: PUBLIC UTILITIES DEPARTMENT WARDS: ALL

**SUBJECT: CITY COUNCIL JOINT WORKSHOP WITH THE BOARD OF PUBLIC UTILITIES
FOR THE ELECTRIC AND WATER UTILITY FIVE-YEAR RATE PROPOSAL**

ISSUES:

Conduct a joint workshop with the Board of Public Utilities to receive and discuss the results of community outreach regarding the electric and water utility five-year rate proposal 2018-2022 and provide conceptual approval of an electric and water utility five-year rate proposal for presentation to the Board of Public Utilities and City Council in February and March 2018, respectively, with new rates effective April 1, 2018.

RECOMMENDATIONS:

That the City Council and Board of Public Utilities:

1. Conduct and participate in a joint workshop to receive and discuss the results of community outreach regarding the electric and water utility five-year rate proposal 2018-2022;
2. 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;
3. Direct staff 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 February 26, 2018 and final rate recommendations to the City Council on March 6, 2018; and
4. Provide direction to staff for any modifications to the rate proposal.

BACKGROUND:

The City Council last approved five-year and four-year water and electric utility rate increases in 2006 and 2007, which was ten years ago. The last rate increases from these plans were effective in 2010. RPU then froze rates in July 2010 due to the severe economic downturn in Inland Southern California. During the recent drought, the worst in more than 125 years, many water

agencies raised rates to make up for reduced demand. Likewise, legislation and regulations have dramatically increased costs to the electric utility. RPU has been able to keep rates stable by being water independent (achieved through past infrastructure investments), negotiating power supply contracts at the lowest prices available, securing low-cost financing with strong bond ratings, relying on financial reserves and maintaining low staffing levels. Now, RPU has reached a point where rate increases are unavoidable. If RPU does not raise rates now, it is certain that there will be a negative impact to utility operations and bond ratings.

Several joint meetings were held in mid-2015 with the Board of Public Utilities (Board) and City Council to evaluate and discuss the strategic objectives and ten-year roadmaps that support Utility 2.0 (Options 1 through 4). On October 6, 2015, the City Council conceptually approved Option 3 of the Utility 2.0 Strategic Plan. Cost of service studies were completed in 2017 to support Option 3 of the Utility 2.0 plan. Details of Utility 2.0 plan can be found at www.RiversidePublicUtilities.com.

On August 28, 2017, and September 26, 2017, the Board and City Council, respectively, were provided an overview of the rate proposal to support Option 3 of the Utility 2.0 Strategic Plan for infrastructure improvements over the next ten years.

Under the proposal, the projected annual average system rate increase would be 4.8% for electric and 8.6% for water for the first five years, followed by annual cost-based price adjustments for the subsequent five years. Projected rate increases would vary by customer class and consumption levels.

After reviewing the proposal, the City Council directed staff to conduct a citywide community outreach initiative on the rate proposal in October and November 2017 and to hold a joint meeting with the Board and City Council in November 2017 to discuss community feedback and next steps to develop a final recommendation in January and February 2018, with new rates effective on April 1, 2018.

In evaluating comments provided during Board and City Council discussion, common themes mainly centered on:

1. Providing sufficient customer outreach to include information on ways to save (rebate and efficiency programs) and determining metrics that will be used to gauge responses; providing communication to the Board and City Council on themes that emerge from community meetings;
2. Providing specific outreach to target low-income and fixed income customers; and
3. Ensuring that the Board and City Council have oversight and approval authority over any annual cost-based rate changes or cost adjustments being proposed in future years.

DISCUSSION:

COMMUNITY OUTREACH AND FEEDBACK

In October and November 2017, staff conducted a comprehensive community outreach effort to present and obtain feedback on the rate plan proposal:

1. Fifty (50) presentations at various community meetings, including:

- a. Six RPU-hosted meetings in six of the seven wards (wards 6 and 7 were a combined meeting);
 - b. Multiple service group, neighborhood group and business group meetings, when invited and as time allowed;
 - c. A special RPU-hosted community meeting to address the particular concerns of grove customers on WA-3 and WA-9 water rates (see below); and
 - d. Two RPU-hosted meetings of low-income, fixed income, and senior advocates on low-income outreach and program enhancements (see below).
2. Distribution of flyers and information materials to over 150 groups and/or locations.
 3. Nearly 13,000 social media contacts.
 4. Nearly 300 visits in October to the RPU rate plan webpage.
 5. Business-specific communications, including:
 - a. Multiple Greater Riverside Chambers of Commerce task force, committee and board meetings;
 - b. Multiple roundtable meetings with business groups and business area councils; and
 - c. Email communications with all key industrial and commercial accounts.

Themes that emerged from the community meetings include:

1. The proposed rate increases are too high and unsustainable for local residents:
 - a. Implement the infrastructure plan over a longer period of time;
 - b. Build only the infrastructure that is absolutely needed;
 - c. Reduce operating costs to minimize rate increase requirements; and
 - d. Change the General Fund Transfer to minimize the rate increase.
2. Improve outreach to low- and fixed income customers and increase levels of assistance.
3. Protect Riverside's agriculture consistent with Proposition R and Measure C.

Themes that emerged from the business sector meetings include:

1. The proposed rate increases are too high and unsustainable for local businesses:
 - a. Minimize the proposed rate increases in the first year of implementation, because most businesses' have already set their budgets for the year;
 - b. Refresh all assumptions in the rate plan;
 - c. Revise and reprioritize the capital program to minimize the rate increases; and
 - d. Implement a regular review and oversight of rates and funded projects.
2. Keep the rate plan to five years and revisit it prior to 2022.
3. Develop policies to ensure we do not have "stair-step" increases again. Provide annual updates on projects and forecasts or previews of RPU rates for the period past the current 5-year proposal, so that businesses can plan for the future.

For more detailed information on community outreach and feedback, please see Attachment 2 (Community Outreach), Attachment 3 (Low-income and Fixed Income Assistance), and Attachment 4 (Agriculture/Grove Customers). Community meeting summaries are available at RiversidePublicUtilities.com/rateplan.

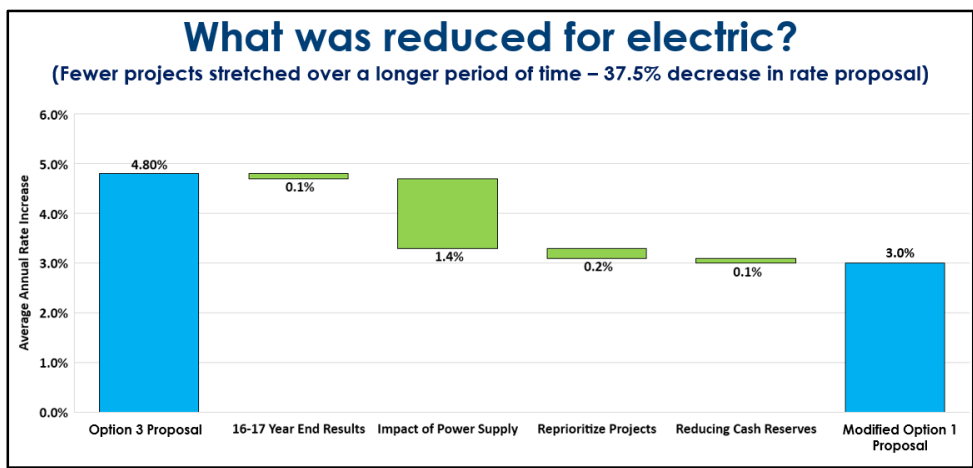
PROPOSED CHANGES TO RATE PROPOSAL

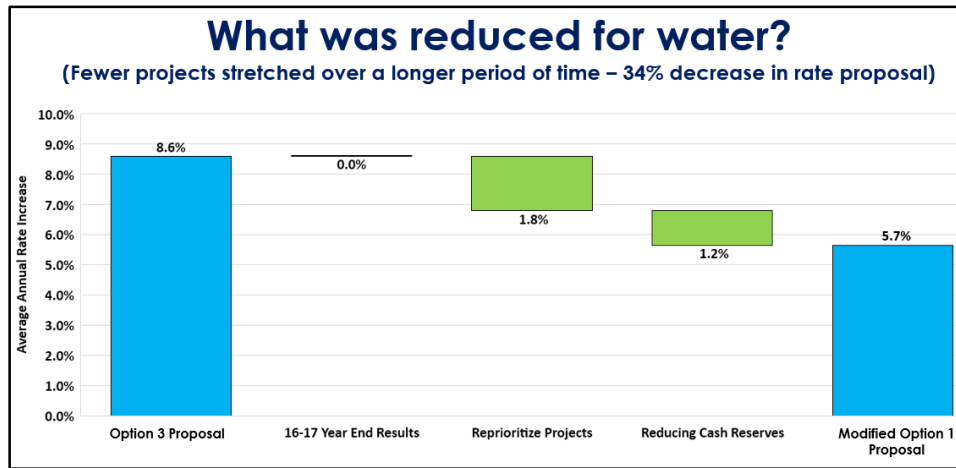
In response to feedback from the Board, City Council, customers and community groups, staff has made changes to the initial rate proposal presented to Board and City Council in August and September 2017 that lower the rate impact while maintaining adequate electric and water system reliability.

1. Staff refreshed all the financial assumptions in the original rate plan proposal.
 - a. The electric and water cost of service studies and corresponding financial plans were prepared over a year ago. Since that time, we now have actual financial results for FY 2016-17 which show a slight improvement in the financial performance of the electric utility compared to the budget. This helps lower the proposed rate increase.
 - b. New legislation was passed in late July extending California's Cap & Trade Program, resulting in an overall reduction of future carbon compliance costs for RPU. Power Resources staff analyzed the impacts of this new legislation and revised the power supply budget projections to reflect changes carbon compliance costs, reduced coal plant output at the Intermountain Power Project due to lower market energy prices, and reduced California Independent System Operator (CAISO) related charges.
 - c. Staff lowered proposed future cash reserves levels in the financial plan to the lowest possible levels while still maintaining current bond ratings.
2. Staff reprioritized and extended out projects within the ten-year infrastructure plan.
 - a. The electric utility reduced its infrastructure plan from Option 3 to a modified Option 1 requiring an overall reduction of \$141 million of expenditures – from \$630 million to \$489 million - for infrastructure projects over the ten-year planning period.
 - i. Street light replacements were reduced.
 - ii. Electric pole replacements were reduced by 50%
 - iii. Reductions were made to underground replacements and rehabilitations; these were pushed out to future years.
 - iv. The new neighborhood substation in Arlanza is no longer part of the 10-year plan and will be replaced after 10 years.
 - v. Substation breaker replacements are reduced by 14%
 - vi. System automation projects including Contact Center Interactive Voice Response System, Customer Web Portal, certain mobile applications, and automated vehicle locating systems will be deferred to future years.
 - b. The water utility reduced its infrastructure plan from Option 3 to a modified Option 1 (except water supply projects which were reduced to "status quo" levels) requiring an overall reduction of \$163 million of expenditures – from \$442 million to \$279 million - for infrastructure projects over the ten-year planning period.
 - i. Water supply and treatment projects:
 - I. Of the eight future water supply projects costing \$97 million, six have been eliminated from this rate plan, resulting in water supply costs being lowered to \$24 million. However, if certain conditions change, such as an increase in demand, a reduction in existing supply, completion of joint agreements with neighboring water agencies, availability of grant funds, and other similar changes, staff will then identify and "package" these projects with agreements from project participants, environmental approvals, grant

- approvals, etc.
- II. In addition, the treatment plant was postponed until the State Water Resources Control Board, Division of Drinking Water finalizes new perchlorate MCL (\$14.8M, which represents a 2% rate increase in FY 17/18 to build the plant and 2% rate increase for annual ongoing operations in FY 19/20).
 - III. These project packages will be considered by Board and City Council with costs and associated rate impacts when needed.
- ii. Transmission pipeline projects:
 - I. The Victoria project was eliminated. This will increase operating costs through less efficient operation of pumping stations and reservoirs.
 - II. The start of the Park Avenue Transmission Project was pushed out into the future. The project will begin at the latter part of the proposed ten-year plan but will be completed over multiple years.
 - iii. Distribution pipeline projects: Pipeline replacements was reduced from 8.5 miles per year (a 100-year replacement cycle) to a slow ramp up to average 4.7 years (180-year replacement cycle) over the next 10 years. In the tenth year, the plan for replacement is the highest at 6.5 miles per year (a 130-year replacement cycle) and it is expected that future years funding will achieve a 6.5 mile/year or higher replacement.
 - iv. Reservoir projects: Minor rehabilitation and capitalized maintenance projects was reduced.
 - v. System automation projects: Projects including the Contact Center Interactive Voice Response System, the Customer Web Portal, and automated vehicle locating systems were deferred to future years.
3. Staff changed the timing of rate increases in order to accommodate the ability for customers to plan and budget for the increases. The first rate increase to be implemented on April 1, 2018 will be as low as possible, deferring Utility 2.0 infrastructure capital investments to later years. Rate changes in subsequent years have been pushed from the originally proposed implementation date of January 1, 2019 to July 1, 2019, with the remaining rate increases set for July 1, 2020, 2021 and 2022.

After refreshing the financial assumptions, reprioritizing projects and extending the timing of rate increases, the system average electric utility rate increase is reduced from 4.8% under Option 3 to 3.0% under a modified Option 1, and the system average water utility rate increase is reduced from 8.6% under Option 3 to 5.7% under a modified Option 1.





Revised Rate Proposal – Modified Option 1

	Years 1-5 (2018-2022)		Years 6-10 Preview (2023-2027)
Electric	April 2018	2.95%	Estimated rate requirement Average annual 3.0%
	July 2019	3.0%	
	July 2020	3.0%	
	July 2021	3.0%	
	July 2022	3.0%	
Water	April 2018	4.50%	Estimated rate requirement Average annual 6.5%
	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 above revised rate proposal reflects maintaining the “status quo” for currently funded capital investments until after July 1, 2019 and pushing out the start of Utility 2.0 infrastructure improvements (modified Option 1 for electric and modified Option 1 for water) until that time. Should the Board and City Council choose to forgo implementing any Utility 2.0 infrastructure improvements, the system average rate increase would be reduced by 0.3% for the electric utility and 2.8% for the water utility. In other words, maintaining the electric and water utilities’ existing rate of infrastructure replacements will still require rate increases of 2.7% for the electric utility and 2.9% for the water utility.

Reducing the amount of infrastructure from what was originally planned in Option 3 will reduce resiliency and does increase risk. Under the lower proposed rates, the replacement of poles and pipelines happens much more slowly; thus is not sustainable in the long-term. We do not anticipate immediate impacts, however the long-term replacement rate must be shortened to meet expected life of these assets. By deferring and pushing out infrastructure projects, RPU will be handing more repairs on a reactive and emergency basis versus in a planned and proactive. Reactive repairs are more expensive and result in longer interruptions for customers. Infrastructure that leave our community most vulnerable, such as transmission lines and substations are replaced at a sustainable rate in this proposal.

Please refer to Attachments 5 and 6 for Utility 2.0 infrastructure improvement comparisons which summarize projects, features and costs associated with each option.

Agriculture (Grove) Customer Proposal

Based on the feedback from the community, RPU staff is proposing the following changes to the original proposal to transition WA-3 and WA-9 agriculture water rates to cost of service rates within five years:

1. The Board will create an Ad Hoc Agricultural Water Rates Task Force (Ag Task Force) that will last two years. The Ag Task Force will consist of community members, as determined by the Board. The Ag Task Force will work with RPU staff to develop rate alternative recommendations to the Board for agricultural customers. The Ag Task Force will submit rate recommendations to the Board by the end of 2019.
2. In the interim, all WA-3 and WA-9 customers will be subject to a rate increase equal to the system average rate increase proposed for all other water customers, as follows:
 - a. 4.5% increase, starting April 1, 2018; and
 - b. 5.75% increase, starting July 1, 2019.
3. The Board will review, modify if necessary, approve and recommend to the City Council the Ag Task Force rate recommendations, effective July 1, 2020.

For more detailed information on the agriculture (grove) customer proposal, see Attachment 4.

Low-Income and Fixed Income Proposal

Based on the feedback from the community and low-income, fixed income and senior advocates, staff proposes the following low-income and fixed income program changes:

1. Enhance the existing Sharing Households Assist Riverside's Energy (SHARE) Program by implementing the following changes:
 - a. Increase eligibility from 150% to 200% of the Federal poverty level (reported annually);
 - b. Change the \$150 annual electric bill credit to a \$14 monthly electric bill credit;
 - c. Add annual deposit assistance and emergency assistance (up to \$150 per year);
 - d. Add a \$2.25 monthly water bill credit; and
 - e. Work with the Community Action Partnership to create more convenient options for customers to sign up for program benefits (e.g., additional sign-up locations, secure online application).
2. Enhance the existing Energy Saving Assistance Program (ESAP) by implementing the following changes:
 - a. Align program eligibility with SHARE and partner agency programs; and
 - b. Automatically sign up customers who qualify for the SHARE program.

Additionally, staff proposes a comprehensive outreach campaign specifically targeting low-income, fixed income and senior customers to ensure they are aware of these program changes. Staff also proposes to conduct a needs assessment and maintain an ongoing stakeholder advisory process.

Staff expects SHARE program participation to more than double – from 4,500 to more than 10,000 customers – and ESAP program participation to more than quintuple – from 200 to more than 1,000 customers.

For more detailed information on the low-income and fixed income proposal, see Attachment 3.

RATE PLAN REVIEW AND OVERSIGHT – AVOID “STAIR STEP” INCREASES

In conjunction with year-end annual financial results, the Board and City Council will be provided with a report outlining the status and rate plan spending levels of approved projects. The current proposed 5-year rate package will have rate increases starting in April 2018, July 2019, July 2020, July 2021 and July 2022.

In addition, starting in December 2019, staff will provide a five (5) year preview/forecast for years 2023-2027 to the Board and City Council. For instance, with the current proposal, the proposed rate increase for water is 5.7% per year for the first 5 years and staff is projecting that the rate increase in the next five years will be 6.5%. The first such forecast will be provided by the end of calendar 2019. These forecasts will be used to compare approved rates with updated financial data and a preview of recommended future rate adjustments.

By the end of calendar 2021, staff will propose to the Board – as part of the FY 2022-24 two-year budget - a new 5-year rate package for implementation starting in July 2023. This will ensure that the Board and City Council are presented with the latest forecasts each year, thereby eliminating unnecessary stair-step increases as we have had in the past due to delays in implementing rate plans.

Finally, staff proposes that rate plans already approved by the City Council require a super-majority of five (5) members of the City Council to consent to any “reopener”.

NEXT STEPS

Direction from Board of Public Utilities/City Council at Joint Workshop	November 28, 2017
Refresh Cost of Service Analysis and develop new rate schedules	December 2017
Public Hearing – Board of Public Utilities	February 26, 2018
Rate Recommendation – City Council	March 6, 2018
New Rates Effective	April 1, 2018

FISCAL IMPACT:

Five-Year Rate Proposal 2018-2023	Electric Utility - Modified Option 1	Water Utility - Modified Option 1
Average Annual Rate Increase	3.0%	5.7%
Total Revenue From Rate Increase	\$139,000,000	\$38,000,000
Total Retail Revenue	\$2,004,000,000	\$402,000,000
% Retail Revenue from Rate Increase	6.9%	9.5%
Total Increased Renewables Costs	\$105,000,000	\$0
Total Planned Infrastructure	\$232,000,000	\$156,000,000
Total Bond Proceeds	\$178,000,000	\$95,000,000
% of Infrastructure Financed	77%	61%

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. For more detailed information, see Attachment 3.

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Certified as to
availability of funds: Adam Raymond, Chief Financial Officer/City Treasurer
Approved by: John A. Russo, City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Community Outreach
2. Low-Income and Fixed Income Assistance
3. Agriculture/Grove Customers (WA-3 and WA-9 Water Rates)
4. Utility 2.0 Electric Utility Rate Option Comparison
5. Utility 2.0 Water Utility Rate Option Comparison
6. Presentation