Attachment 1

City Council Joint Workshop with the Board of Public Utilities
January 18, 2018

Staff Responses to City Council Questions from November 28, 2017 Workshop

At the November 28, 2017 City Council Joint Workshop with the Board of Public Utilities for the electric and water utility five-year rate proposal, the City Manager requested that the City Council forward questions on the rate proposal to the City Manager and the RPU General Manager for written responses to be included in a staff report at a future workshop. Staff received 40 questions and comments from six City Council Members.

Included below are staff responses to City Council questions and comments. In order to facilitate public review, City Council questions/comments and staff responses are numbered by Council Member and organized both by topic (green headings) and by Council Member (blue headings). Where applicable and appropriate, staff responses reference other attachments to the January 18, 2018 staff report.

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Organized by Topic

Questions/Comments	Answers/Responses
Agriculture	
Councilmember Gardner 2 **Can we quantify the extra capacity of the Gage Canal as it exists today (not pressurized, as an open gravity flow canal)?** • **How much more can the canal handle?** • **Is there existing but unused infrastructure that could be used to deliver Gage Canal water to parcels that used to take that water but do not any longer?** • **Does the Gage Canal regulatory framework permit prior customers to rejoin? If not can it be amended? What would that process entail?**	The challenge of the Gage Canal is not its carrying capacity, which is more than sufficient, but rather its operation as a non-pressurized ditch. The Gage Canal Company currently has about 290 customers, and only a portion of these customers can take their water allotment on any given day, with most receiving only two or three deliveries in a month. Most Gage customers have onsite reservoirs that store their allotment and use it over the course of several days. There is capacity to add more customers to the Gage Canal Company system. However, there are three questions that need to be answered: 1. Are the pipelines serving Gage Canal Company water to the new customers in adequate condition? 2. Do the new customers have adequate on-site storage to hold a few days of water supply? 3. Do the new customers have the electrical service and pump to pressurize the water? RPU is currently reviewing what customers could or should be converted to Gage Canal Company service. We are also trying to find funding to assist with the conversion work. As for RPU customers rejoining the Gage Canal Company, RPU already has such a mechanism in place. RPU allows any customer that is able to take water directly from the Gage Canal to do so under RPU's WA-8 water rate. RPU currently has nine customers who take water directly from the Gage Canal under the WA-8 rate; it is uncertain how many additional RPU customers are capable of taking Gage Canal water and converting to the WA-8 rate. The Gage Canal Company bills RPU for usage by RPU's WA-8 customers, and RPU in turn bills its WA-8 customers. The advantage to the RPU WA-8 customer is that RPU bears the risk of ownership in the Gage Canal Company, and the advantage to RPU is that we can ensure that the customer uses the water efficiently.

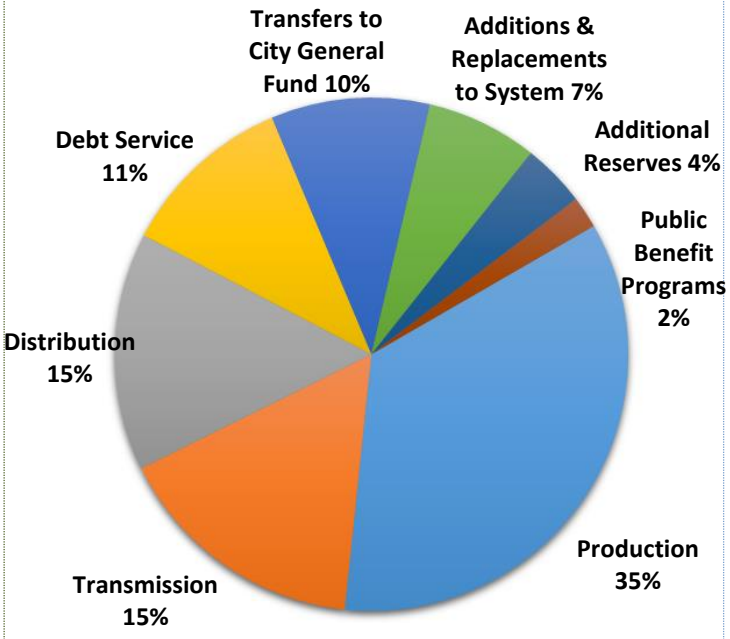
Questions/Comments	Answers/Responses
Councilmember Gardner 3 **If additional Gage Canal Water could be used for irrigation how much potable water would we expect to be freed up for other purposes?** • **What do we project the value of that water to be if sold to an adjoining agency?** • **Could that revenue be used to fund additional Gage Canal infrastructure to enable more use of nonpotable water for irrigation thereby freeing up more potable for other beneficial use whether consumption by RPU customers or for sale to other agencies?**	At this time, the Gage Canal is carrying about 6,000 acre-feet per year of potable water to supplement its sources of non-potable water. Moving customers from the domestic system to the Gage Canal Company system will not increase RPU's water supply. On the other hand, if RPU could find a suitable non-potable water source to substitute for the 6,000 acre-feet per year of potable water introduced into the Gage Canal Company system, RPU could market that 6,000 acre-feet and realize a profit of about $3 million per year. If that revenue stream were used to finance bonds, RPU likely would have sufficient funding to modernize the Gage Canal. Benefits would include: 1. RPU customers with smaller lots would be able to use the Gage Canal Company system, as they will no longer need to have onsite reservoirs and pump systems; 2. All or a portion of the Gage Canal could be covered; 3. Zanjeros (ditch tenders) would no longer need to drive along the canal, making the canal path safe for use by pedestrians/bicyclists/horses along its entire length; and 4. With a pressurized system, all users would be able to use the most efficient irrigation methods, which would increase the water supply and allow even more users to take advantage of the system without the need to find more water supply. At this time, we have not identified a supplemental non-potable water source.
Councilmember Perry 11 **What impact if any does freezing the Ag rates for one year have on others customers and how does it affect the 5 year projections?**	The first year of the proposed rate plan provides for no rate increase for WA-3 and WA-9 (agricultural) customers. Freezing WA-3 and WA-9 rates for one year will result in $24,000 less revenue to the water utility. This lost revenue will be subsidized by an increase to other water customers' rates.
Finance	
Councilmember Gardner 1 **How can we reduce the 2018 rate increase and what is the impact of doing so on projects, reserve levels and**	Reducing the first year rate increase, scheduled to go into effect July 1, 2018, would have one or more of the following consequences: 1) an increase in future infrastructure replacement costs, resulting in higher

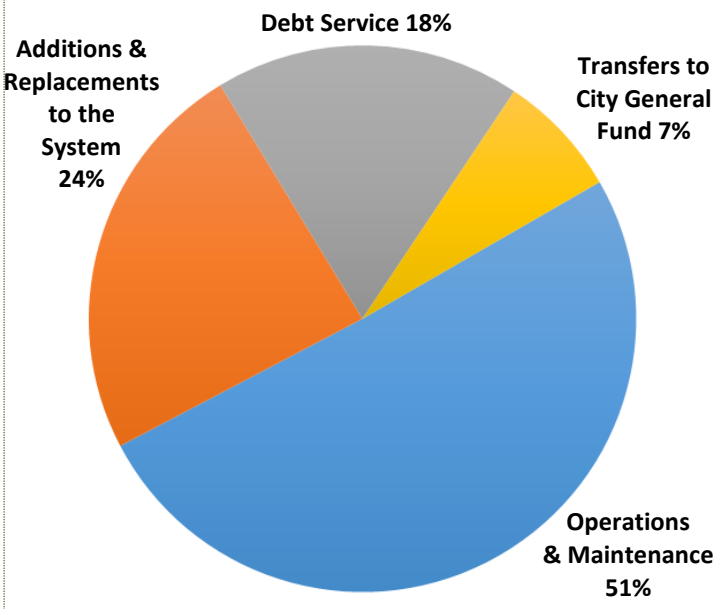
Questions/Comments	Answers/Responses
bond ratings? My goal would be to get the 2018 increase to 2% or less, but my advocacy for the effort will be affected by the impacts of achieving it.	future rates; 2) a reduction in reserves below the bare minimums, requiring higher rates to return to minimum reserve levels within three years as required by policy; 3) a reduction in bond credit ratings leading to higher borrowing costs.
<u>Councilmember Soubirous 1</u> **Illustrate with easy to read and verifiable data why we need a rate increase for water and electric versus cutting back on staff, pay, cutting other costs or taking any other cost-cutting action.**	Why does RPU need a rate increase for the electric and water utilities? Because current electric and water rates provide insufficient revenues to meet future expenses. The following table compares projected RPU revenues under existing rates to projected RPU costs under Utility 2.0 Modified Option 1 infrastructure plan over the next ten years: **Five-Year Rate Proposal (2018-2023)** / **Electric Utility** / **Water Utility** **Required Revenues** / $1,700,000,000 / $345,000,000 **Current Revenues** / $1,563,000,000 / $307,000,000 **Revenue Shortfall** / $137,000,000 / $38,000,000 **Average Revenue Shortfall Per Year** / $27,400,000 / $7,600,000 Please see Attachments 4 and 5 for specific information on infrastructure projects and other funding requirements under Utility 2.0 Modified Option 1. Could RPU cut back on staff to cover this revenue shortfall? The following table illustrates how many staff would need to be cut to meet RPU's electric and water utility revenue needs: **Five-Year Rate Proposal (2018-2023)** / **Electric Utility** / **Water Utility** **Average Revenue Shortfall Per Year** / $27,400,000 / $7,600,000 **Average Cost Per Employee** / $126,374 / $120,486 **Number of Employees Reduced** / 217 / 63 **Total Employees** / 475 / 156 **Percent Reduction of Total Employees** / 46% / 40% Cutting 40% of water utility staff and 46% of electric utility staff is unsustainable and would be detrimental to

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	utility operations and customer experience. For example, less field crews available to respond to repairs and customer requests will result in longer outages and wait times and higher overtime costs. The rate proposal includes no funding for additional employees over the next ten years, as well as additional staffing-related savings. For example, RPU is proposing to not fill and/or eliminate current executive management vacancies, including Deputy General Manager and Assistant General Manager – Customer Relations. In addition, State law requires all new hires to pay their full employee share of CalPERS retirement, and the City requires all existing employees to pay their full share within four years. These together result in savings of approximately $11.2 million over the next five years. Could RPU cut back on pay to cover this revenue shortfall? RPU is not proposing salary cuts unless justified by market conditions. It is financially prudent for RPU to maintain salaries that are comparable to other municipal utilities; otherwise, RPU will invest in training new employees only to lose them to cities that pay better. Could RPU cut back on other costs to cover this revenue shortfall? Yes, cutting back on costs will reduce RPU revenue needs, while also reducing reliable electric and water service. Please see Attachments 4 and 5 for cost-cutting options that would lead to lower rate increases.
<u>Councilmember Soubirous 3</u> **Why is the proposed rate increase for water so high? If we lower the price of water, drop the tiers, go with budget based pricing, why would the residents not use more water?**	Why is the water rate proposal so high? The electric and water rate proposals both result in the same average residential customer impact of approximately $3 per monthly bill. Additionally, the revised water rate proposal is 35% less than the original proposal. Anything less will result in unacceptable customer impacts. Why wouldn't Councilmember Adams's proposal work? Would lowering the price of water lead to increased use, offsetting the need for a rate increase? First, while RPU encourages the full beneficial use of our water supply, RPU is prevented by the California Constitution (Article X, Section 2) to encourage wasteful, inefficient use of its water supply. Even under non-drought conditions, RPU customers are finding ways to use water more efficiently, including the installation of water-efficient appliances and irrigation systems. This has led to an overall declining

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	trend in water use, which is only partially offset by growth because building codes now require high levels of water efficiency. All water suppliers are also subject to a law passed in 2009, SBX7-7, which requires a 20% reduction in water use by 2020. Reducing the cost of water would have a marginal impact, if any, on this market trend, as more efficient appliances and irrigation systems will continue to use less water regardless of water prices. Additionally, from a technical perspective, "elasticity" is a measure of how demand changes based on pricing changes. Staff estimates, based on historical RPU customer data, that the water elasticity coefficient for RPU residential customers is about -0.3. In other words, a 1% rate increase will result in about a 0.3% decrease in water sales, and a 1% rate decrease will result in about a 0.3% increase in water sales. This is because the demand for water - particularly for indoor household use and for use in commercial or industrial uses - does not change much due to price changes. Basically, each person essentially drinks a certain amount of water and uses a certain amount of water for cleaning, cooking, and other such uses, regardless of whether the price is lower or higher. Thus, reducing the cost of water by 2% will only result in a 0.6% increase in sales, which translates to a 1.4% decrease in net revenues for the utility. RPU cannot increase its water revenues by decreasing rates. Would dropping water tiers be a solution? Staff has no data to justify anticipating an increase in revenues as a result of eliminating the water rate tiers. Tiered rates are used by 67% of California water providers to allocate costs for reliable water service in a fair and equitable way. Elimination of water rate tiers by transitioning to a uniform volumetric rate will have the impact of increasing the costs of customers who use less water overall, including the increased cost of the first 9 hundred cubic feet (ccf) of water each month for single family homes and the first 7 ccf for multi-family homes. This lowest cost tier, which every residential customer receives, would increase if water costs were simply averaged to create a uniform volumetric rate. As a result, the 36% of RPU customers who currently do not use water outside the lowest cost tier would see a large increase to their water bills. This translates to 20,192 RPU water customers; 3,355 are located in Ward 1, 2,503 are

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	located in Ward 2, 3,683 are located in Ward 3, 694 are located in Ward 4, 3,966 are located in Ward 5, 2,887 are located in Ward 6, and 3,104 are located in Ward 7. Low-income and fixed income customers would be the most significantly impacted. They would now be incurring the costs associated with peak system infrastructure requirements even though they are most typically not the customers causing the need. The residential customers who will benefit from this approach will be high water use customers. Would a change to budget-based pricing be a solution? Budget-based tiered rates are a different type of tiered rate. Changing to budget-based tiered rates would not eliminate the need for rate increases. Budget-based tiered rates allocate water costs based on efficient levels of use for individual customers and their specific needs, such as the number of persons living in a household, size of yard, and type of landscape or home agricultural water use needs. RPU's current rate proposal makes modifications to the existing seasonally priced tiered rates to meet cost of service requirements and facilitate a transition to budget-based tiered rates, if desired. In order to establish budget-based tiered rates, a new cost of service study would need to be developed and each customer's water budget and tier allocations must be calculated individually. Before transitioning to budget-based tiered rates, an analysis of the administrative costs and system needs as well as the changes to the rate structure for each customer class should be undertaken. Depending on the results of this analysis, estimated costs for developing and implementing a budget-based tiered rate structure, based on the experience of other water agencies, could range anywhere from $300,000 to $800,000. If directed to do so, RPU staff will prepare an analysis of budget-based tiered rates for Board and City Council consideration. After consideration of the analysis, RPU could then develop a plan for a revenue-neutral conversion to budget-based tiered water rates for Board and City Council consideration.
<u>Councilmember Conder 1</u> **How many current customers do we have on both sides of the utility? Residential and commercial?**	As of June 30, 2017, RPU has 109,274 electric customers and 65,428 water customers. Of these, RPU has 97,372 residential and 11,902 commercial/other electric accounts and 59,453 residential and 5,975 commercial/other water accounts.

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Councilmember Conder 2 **What was RPU's revenue for the past 5 years, by year for both the Electric and Water side of the utility, from customer charges.**	RPU's revenues (in thousands) for the past five years by utility are as follows: **Fiscal Year** / **Electric** / Water FY 2016-17 / $395,153 / $68,068 FY 2015-16 / $392,399 / $63,264 FY 2014-15 / $357,394 / $71,594 FY 2013-14 / $357,234 / $73,621 FY 2012-13 / $359,118 / $73,932 RPU's annual financial reports for the past 30 years can be found on the following webpage: www.RiversidePublicUtilities.com/about-rpu/annual-reports.asp.
Councilmember Conder 3 **Where were those funds committed to? i.e. how much to salaries, overtime, operations, infrastructure, emergency repairs, inventory?**	The charts below reflect the distribution of utility revenues based on RPU's latest Annual Financial Report (www.RiversidePublicUtilities.com/about-rpu/annual-reports.asp): **ELECTRIC FUND DISTRIBUTION OF REVENUE** 

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	WATER FUND DISTRIBUTION OF REVENUE  2017 Salaries, Benefits and Overtime are included in the above costs and are as follows: **(in thousands)** / **Electric** / **Water** **Personnel Costs:** Salaries: $33,981 / $11,424 Benefits: $16,107 / $5,950 Overtime: $4,244 / $2,381 **Total Personnel Costs: $54,332 / $19,755** Personnel costs – charged to Operations: $47,763 / $14,112 Personnel costs – charged to Capital Projects: $6,569 / $5,643 **2017 Infrastructure Costs (Capital Projects):** $27,999 / $18,634
Councilmember Conder 4 **What are the expected "new revenues", to both Water and Electric, that will be generated if we pass the requested rate increase?**	Incremental annual revenues are estimated at $27.4 million for electric and $7.6 million for water.
Councilmember Conder 5	Each year, RPU will evaluate and provide the City Council with a report on all aspects of rate plan implementation, anticipated revenues and infrastructure spending,

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What will happen if the new rate increase drives down usage and revenues come in short?	including recommendations, if any, for rate adjustments needed to meet RPU goals as established by the City Council. At the November 28, 2017 workshop, the City Council approved a rate plan review and oversight process, wherein each December beginning in 2019 RPU will provide an update on the status of rate plan spending and a five-year rate preview/forecast for years 2023-2027 to the Board of Public Utilities and City Council with (a) City Council ability to reopen discussion of the current rate plan by a majority vote; (b) review of annual 5-year forecast to avoid future potential "stair step" increases; (c) by the end of 2021, as part of Fiscal Year 2022-24 Two-Year Budget, a new 5-year rate package to be presented for consideration starting in July 2023; and (d) the process of rate review and proposals to continue into the future, even if *de minimis*.
Councilmember Conder 7 **Discuss impacts of a 2% reduction for a one year period in the electric and water rates charged to RPU customers.**	In the opinion of RPU's financial advisor, PFM Financial Advisors LLC (PFM), the 2% reduction scenario would result in a certain downgrade from S&P and possible downgrades from Fitch and Moody's absent a reduction in planned capital spending below status quo levels – or the level of capital spending required to maintain the existing level of infrastructure. The potential rating outcomes under this scenario over time will lead to significantly higher financing costs, upwards of $1 million per year for every $100 million borrowed. Additionally, RPU will pay more for lines of credit and variable rate products.
Councilmember Conder 8 **Discuss impacts of a 5% decrease in the non-operational RPU budget, including administrative salaries and overtime.**	A 5% reduction to the administrative and operational portion of RPU's Fiscal Year 2018-19 budget would result in a savings of $3.5 million for the electric utility and $1.7 million for the water utility. This does not include capital improvement infrastructure projects, electric power supply, and other fixed costs. To make these reductions, 28 positions would have to be eliminated on the electric side, and additional 14 positions on the water side – representing 7% and 10% of the electric and water workforce, respectively. Such drastic reductions will significantly impact service levels (repairs, troubleshooting, customer service, etc.) as well as delivery of capital projects. The rate proposal includes no funding for additional employees over the next ten years, as well as additional staffing-related savings. For example, RPU is proposing to

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	not fill and/or eliminate current executive management vacancies, including Deputy General Manager and Assistant General Manager – Customer Relations. In addition, State law requires all new hires to pay their full employee share of CalPERS retirement, and the City requires all existing employees to pay their full share within four years. These together result in savings of approximately $11.2 million over the next five years..
Councilmember Mac Arthur 1 **Please show what a 2%, 3%, 4% and 5% rate increase would have on the debt service coverage (DSC) ratio, the days cash on hand (DCOH) metric, and the RPU bond ratings?**	Yes. In the opinion of RPU's financial advisor, PFM Financial Advisors LLC (PFM), the 2-3% scenarios would result in a certain downgrade from S&P and possible downgrades from Fitch and Moody's absent a reduction in planned capital spending below status quo levels – or the level of capital spending required to maintain the existing level of infrastructure. Falling below a 1.7x debt service coverage (DSC) ratio will put pressure on the rating without stronger offsetting days cash on hand (DCOH) (300+ days). Moving beyond the 5-year forecast that we would show to rating agencies next year, the water system is at risk of future downgrades across all three rating agencies, and would certainly have to increase rates to avoid a deficit in the out years. Similarly, the 4% scenario likely gets a downgrade by S&P next year, and moving forward the AA+ from Fitch (and the downgraded S&P rating) would be at risk as DSC falls below 1.7x and DCOH below 150 days. The 5% scenario has minimal risk over the next 5-years, but in subsequent years RPU's financial metrics start to fall out of AAA/AA+ levels, likely necessitating larger rate increases in the out years than currently contemplated in order to preserve RPU's ratings. The potential rating outcomes for the 2%, 3%, 4% scenarios over time will lead to significantly higher financing costs, upwards of $1 million per year for every $100 million borrowed. Additionally, RPU will pay more for lines of credit and variable rate products.
Councilmember Perry 3 **What's the impact of setting back the increase date from 4/1/18 to 7/1/18?**	The impact of setting back the electric utility rate increase date from 4/1/18 to 7/1/18 is a loss of $1.9 million in revenues. The impact of setting back the water utility rate increase date from 4/1/18 to 7/1/18 is a loss of $520,000 in revenues. Due to implementation and Proposition 218 notification requirements, this delay in the rate increase date is now unavoidable and has been incorporated into the revised rate proposal being presented at the January workshop.

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Councilmember Perry 4 **Is there data to show a 2% decrease would stimulate usage and increase revenue?**	Staff has no data to justify a decrease in rates in order to raise revenues. RPU encourages the full beneficial use of our water supply. However, Riverside is prevented by the California Constitution (Article X, Section 2) to encourage wasteful, inefficient use of its water supply. Even under non-drought conditions, RPU customers are finding ways to use water more efficiently, including the installation of water-efficient appliances and irrigation systems. This has led to an overall declining trend in water use, which is only partially offset by growth because building codes now require high levels of water efficiency. Reducing the cost of water would have a marginal impact, if any, on this trend, as more efficient appliances and irrigation systems will continue to use less water regardless of water prices. From a technical perspective, "elasticity" is a measure of how demand changes based on pricing changes. Staff estimates, based on historical RPU customer data, that the water elasticity coefficient for RPU customers is about -0.3. In other words, a 1% rate increase will result in about a 0.3% decrease in water sales, and a 1% rate decrease will result in about a 0.3% increase in water sales. This is because the demand for water - particularly for indoor household use and for use in commercial or industrial uses - does not change much due to price changes. Basically, each person essentially drinks a certain amount of water and uses a certain amount of water for cleaning, cooking, and other such uses, regardless of whether the price is lower or higher. In the simplest of terms, our customers will not drink more water each day simply because water costs less. Thus, reducing the cost of water by 2% will only result in a 0.6% increase in sales, which translates to a 1.4% decrease in net revenues for the utility. RPU cannot increase its water revenues by decreasing rates.
Councilmember Perry 5 **What would a 2.7% increase in electric and a 4.75% increase in water look like?**	A 2.7% increase in electric would eliminate the Citywide LED Lamp Replacement Program for residential and arterial street lighting systems (shifting use of carbon reduction credits to renewable energy), reduce outage management, and delay rollout of advance metering infrastructure. A 4.75% increase in water would eliminate work, asset and inventory management systems, eliminate future phases of the operations data

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	management system, reduce network communications improvements, and delay rollout of advance metering infrastructure. See Attachments 4 and 5 for details on spending cuts that will be required under this scenario.
Councilmember Perry 6 **Upon reviewing the 5 year rate structure, the highest increase is in the last year. Is this to offset the first year? What happens in the following years (6-10)?**	One of the primary messages RPU received from the business community was to minimize the proposed rate increases in the first year of implementation, because most businesses have already set their budgets for the year. RPU is proposing a minimum increase in the first year of 2.95% for electric and 4.50% for water. In order to fund infrastructure investments consistent with Modified Option 1, rate increases in out years need to be higher in order to offset lower increases in the near term. Modified Option 1 is a 10-year infrastructure plan and will require 10 years of investments in the electric and water systems. In order to make the investments required to meet Modified Option 1 infrastructure goals, staff currently projects the need for annual average rate increases of 3.0% for electric and 6.5% for water for Years 6-10. These projections are contingent on utility financial and capital improvement performance in Years 1-5. Staff is not asking the Board and City Council to set rates for Years 6-10 at this time. RPU will refine these projected rates for Years 6-10 and report to Board and City Council every December starting in 2019.
Councilmember Perry 9 **Do we have access to bond revenue? How does this impact our bond rating?**	All electric and water utility bond revenues have been exhausted. The last electric utility bonds were issued in December 2010 and proceeds were depleted by June 2016. The last water utility bonds were issued in December 2009 and proceeds were depleted by April 2015. Why can't RPU just issue more bonds and incur more debt? Current electric and water utility revenues support the bonds that have already been issued and used. In order to issue new bonds, RPU needs new revenues in order to pay back the new bonds over time. New revenues require a rate increase. In short, without a rate increase, RPU does not have the ability to issue new debt until RPU's existing debt is paid down. How does this impact RPU's bond rating? Without a rate increase, RPU's credit rating will be downgraded one or more levels, which will make borrowing much more

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	expensive and ultimately lead to higher costs that will translate into higher rate increases in the future to cover these costs.
Councilmember Perry 12 **Can you summarize the delinquent payment information and does it impact our rates?**	RPU's delinquency rates (net write-offs of delinquent accounts) is 0.2% for electric and 0.1% for water, comparing favorably to the utility industry average delinquency rate of 0.28%. As of June 30, 2017, RPU's net write-offs totaled $732,000 on total rate-generated revenues of $363 million for the year. The average for the past five years has been $797,000. RPU pursues delinquent payments through billing system-generated urgent notices, 48-hour tags, and shut-off work orders for active accounts and pre-collection letters and credit and collections tracking for inactive accounts. Due to implementation of a new bill collection process in August 2016, RPU has been able to reduce the average monthly number of accounts sent to collections from 400 to 250.
Councilmember Adams 4 **How much of RPU's revenue is coming from State and Federal sources, and contracted partners?**	RPU estimates it will receive $36-40 million per year in transmission revenues from the California Independent System Operator over next 5 years and $15 million in California Cap and Trade Program revenues over the next 3 years. Additionally, RPU expects to generate $3-5 million per year in excess renewable energy sales, $750,000 per year through selling scheduling coordinator services to the cities of Banning and Rancho Cucamonga, and $100 million over the next 20 years through the Western Wheeling and Excess Commodity Agreement. Finally, the 55-year lease with Hillwood will potentially generate up to $45 million.
Councilmember Adams 6 **What savings will be realized when the utility cuts 5% off their administration budget, (not the infrastructure Budget) for the year 2018 and then another 5% for 2019?**	A 5% reduction to the administrative and operational portion of RPU's Fiscal Year 2018-19 budget would result in a savings of $3.5 million for the electric utility and $1.7 million for the water utility. This does not include capital improvement infrastructure projects, electric power supply, and other fixed costs. To make these reductions, 28 positions would have to be eliminated on the electric side, and additional 14 positions on the water side – representing 7% and 10% of the electric and water workforce, respectively. Such drastic reductions will significantly impact service levels (repairs, troubleshooting, customer service, etc.) as well as delivery of capital projects.

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	The rate proposal includes no funding for additional employees over the next ten years, as well as additional staffing-related savings. For example, RPU is proposing to not fill and/or eliminate current executive management vacancies, including Deputy General Manager and Assistant General Manager – Customer Relations. In addition, State law requires all new hires to pay their full employee share of CalPERS retirement, and the City requires all existing employees to pay their full share within four years. These together result in savings of approximately $11.2 million over the next five years.
General Fund Transfer	
Councilmember Conder 10 **Discuss impacts of reducing the General Fund Transfer.**	For every 0.5% decrease in the General Fund Transfer from the electric and water utilities, the General Fund will be impacted by $2 million. For example, if the existing 11.5% GFT is lowered to 11%, the impact is $2 million and if the existing GFT is lowered to 10%, the impact is $6 million.
Councilmember Mac Arthur 2 Will the GFT increase as a result of the electric and water rate increases?	There will be an increase in the General Fund Transfer amount as a result of electric and water rate increases. However, the City as a water and electric customer is already paying nearly $1 million annually to RPU from the General Fund (for water use in parks, and water and electric use in recreation centers, libraries, fire stations, and other facilities). As a customer, the City will see its annual payments to RPU going up following the rate increases. In the next two years, any increases in GFT revenue will be offset by the City's increased water and electric costs. In the years that follow, there could be incremental positive GFT revenues, potentially around $1 million annually. At the time the City Council considers budgets for these future years (two years from now), they can decide whether any incremental GFT revenue should be used to sustain General Fund services, or to delay or forgo an RPU rate increase in those fiscal years.
Councilmember Perry 2 **What is the impact and what decisions would the Council have to make if we considered reducing the GFT?**	For every 0.5% decrease in the General Fund Transfer from the electric and water utilities, the General Fund will be impacted by $2 million. For example, if the existing 11.5% GFT is lowered to 11%, the impact is $2 million and if the existing GFT is lowered to 10%, the impact is $6 million. These reduced revenues to the

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	General Fund would have to be balanced with reduction in General Fund spending. With public safety accounting for over two-thirds of the General Fund budget, police and fire would experience the largest reductions. Any such reductions would be on top of General Fund deficits already projected for the next two years.
Infrastructure	
Councilmember Perry 10 **Provide clear examples of past, present and potential future infrastructure issues, Citywide and by Ward.**	Each annual and biannual city budget includes proposed capital improvement infrastructure projects which address infrastructure issues. The following are examples of past, present, and potential future infrastructure issues addressed by capital improvement infrastructure projects incorporated into annual and biannual city budgets: • Power pole replacement projects are intended to address poles that are aging, decaying due to weather and/or termite damage, and are failing or will soon begin to fail. • Underground cable replacement projects address underground cables and infrastructure that are aging, failing, or will soon begin to fail. • Underground vault rehabilitation projects address underground vaults where utility system components are corroding and/or concrete is compromised and is spalling or cracking. • Substation equipment replacements and upgrades address substation equipment and components which are reaching the end of their service life, failing, or will soon begin to fail. The presentation for the January workshop will show examples of current and future infrastructure issues that need to be addressed through the revised rate plan. Maps showing proposed projects addressing infrastructure issues by ward will be provided during infrastructure tours being scheduled with each council member and city management; this information will also be posted on the following webpage: www.RiversidePublicUtilities.com/RatePlan/documents.asp. For additional information, please see the Utility 2.0 Electric and Water Infrastructure Roadmaps for a detailed discussion of utility infrastructure needs and options for future replacement: www.

Questions/Comments	Answers/Responses
	RiversidePublicUtilities.com/utility20. The current rate proposal is based on Utility 2.0 Modified Option 1. Also, please see the Utilities portion of the City's Capital Improvement Program for a detailed discussion of infrastructure replacement plans funded through the City's current Biannual Budget: www.RiversidePublicUtilities.com/finance/cip-overview.asp.
Legal	
Councilmember Gardner 4 **Is there a legal way to broaden the interpretation of beneficial use and cost of service under Proposition 218 and other applicable law and regulation to include the value of side benefits like improved quality of life, a sustainable food system, the cooling effect of transpiration from crops, greater carbon monoxide uptake and increased oxygen output by irrigated crops, energy savings from more shade and lower temperature, etc.? The goal here is to enlarge the box to include benefits that are not currently included in the calculation of cost of service.**	Proposition 218 (1996 amendment to California Constitution) provides that water rates cannot exceed the cost to provide water service. If the rate exceeds the cost, then the local government must seek voter approval for the amount in excess of the cost. The City of Riverside did this in 2013, when Measure A asked voters to approve the water general fund transfer, which is a transfer of up to 11.5% of water utility gross revenues to the General Fund. Voters approved the transfer, and it remains in place. The core function of the water utility is to provide water service to its customers, and all costs charged to a customer must be related to the provision of that service. In order to justify a cost charged to ratepayers under Proposition 218, the water utility must show how the cost is related to the provision of water service. The side benefits from increased agricultural use of water contribute to the quality of life for all Riverside residents, but these benefits may not be related to the provision of water service and thus paid for by water ratepayers. In order to support beneficial uses of water under cost of service requirements, the City has multiple options, including: • Voter approval of water rates that exceed cost of service; and, • Non-water ratepayer funding of beneficial uses (e.g., use of wholesale water or lease revenues and/or General Fund revenues). The City Council has provided conceptual approval for the Board of Public Utilities to form an Ad Hoc Agricultural Rates Task Force to explore these and other options for Board and Council consideration.

Questions/Comments	Answers/Responses
Councilmember Perry 8 **Does this rate increase proposal conflict with either Prop 218 or Prop 26?**	Proposition 218 (1996) and Proposition 26 (2010) are both amendments to the California Constitution and generally mandate that rates for the provision of electric (Proposition 26) and water service (Proposition 218) cannot exceed the cost of providing that service unless voters approve the excess amount. Prior to proposing electric and water rate increases, the City estimated the amount of revenue needed by the electric and water utilities to provide service. The City then reviewed all classes of ratepayers in order to determine if, under the current rate structure, the City would be under-collecting (or over-collecting) costs to provide those services. This review was based upon the projected revenue needs of each utility. The proposed rate plan was designed to appropriately collect from ratepayers the charges for such service in compliance with Proposition 218 and Proposition 26. The City will carefully review any changes to the current proposed rate plan to make sure that the rates continue to comply with Proposition 218 and Proposition 26.
Overtime	
Councilmember Adams 1 **Five years ago the council voted to add three new dispatchers to the electric utility for immediate hire specifically to reduce and or eliminate the outrageous if not amoral overtime. Why were they not hired immediately upon discovery of the issue and the approved solution?**	In 2012-2013, RPU's dispatch unit was fully staffed with ten authorized positions, plus two additional positions in anticipation of pending retirements. RPU accepts responsibility for large overtime payments in the past, and has taken proactive steps to fix the problem. Dispatcher overtime reached its highest levels in Calendar Year 2016, when staffing levels fell below nine full-time equivalent dispatch positions for portions of the year. Upon discovery, RPU immediately initiated a hiring process with the Human Resources Department. Four dispatchers (one vacancy and three new positions) and one dispatch superintendent were hired in 2017. **Months after the overtime problem was discovered, the dispatch section is now fully staffed.** Additionally, RPU has taken immediate steps to strengthen overtime approvals, which will lead to a reduction in overtime use. Bi-weekly overtime reporting, as well as new management actions to curb overtime, have been implemented. Monthly reports are generated for ongoing overtime monitoring and management.

Questions/Comments	Answers/Responses
	These actions should collectively lead to overtime reduction to normal levels in Calendar Year 2018. Normal overtime levels account for employee vacation, sick, and leave time associated with operations of a twenty-four hour, seven-days-a-week dispatch center.
Councilmember Adams 2 **When and how did the current leadership finally take the steps to fill the three positions and stop the exorbitant overtime problem. Why the delay?**	Dispatcher overtime reached its highest levels in Calendar Year 2016, when staffing levels fell below nine full-time equivalent dispatch positions for portions of the year. Upon discovery, RPU immediately initiated a hiring process with the Human Resources Department. Four dispatchers (one vacancy and three new positions) and one dispatch superintendent were hired in 2017. **Months after the overtime problem was discovered, the dispatch section is now fully staffed.** Additionally, RPU has taken immediate steps to strengthen overtime approvals, which will lead to a reduction in overtime use. Bi-weekly overtime reporting, as well as new management actions to curb overtime, have been implemented. Monthly reports are generated for ongoing overtime monitoring and management. These actions should collectively lead to overtime reduction to normal levels in Calendar Year 2018. Normal overtime levels account for employee vacation, sick, and leave time associated with operations of a twenty-four hour, seven-days-a-week dispatch center.
Presentation	
Councilmember Gardner 5 **What is the customer that the proposed rates would add $3.00 a month to water and electric charges? What is their usage? Does this include the increase in fixed charges or only commodity charges?**	The typical RPU electric customer uses 592 kilowatt hours (kWh) of electricity per month. This customer's electric bill is expected to increase on average $3.10 per month for each year of the five-year rate proposal. The typical RPU water customer uses 19 hundred cubic feet (ccf) of water per month. This customer's water bill is expected to increase on average $3.50 per month for each year of the five-year rate proposal. These estimates of increases to monthly electric and water bills for typical customers are inclusive of both volumetric and fixed charges. RPU will provide more examples of different types of electric and water customers and the projected impacts of the rate proposal on their electric and water bills during the January workshop. These examples are in the staff presentation, Attachment 6.

Questions/Comments	Answers/Responses
Councilmember Perry 1 **In the future, can we use actual dollars amounts with percentages?**	RPU will provide actual dollar amounts of the projected impacts of the rate proposal on different types of customers' electric and water bills during the January workshop.
Renewable Energy	
Councilmember Perry 7 **How does current state legislation impact our utility rates as it relates to renewable energy?**	Power purchases account for approximately 60% of RPU's overall electric operating budget. Current California Renewable Portfolio Standard (RPS) mandates continue to drive up RPU's power supply costs and thus account for a significant percentage of the proposed minimum rate increase needs. For example, the average cost for RPU's renewable energy portfolio in Fiscal Year 2016-17 was 7.1 cents/kWh; this cost is expected to increase to 8.2 cents/kWh by Fiscal Year 2026-27. In contrast, the current average cost for RPU's non-renewable energy portfolio is expected to remain stable at 6.0 cents/kWh over that same time period. These increasing costs for renewable energy impact RPU's budget both through higher $/kWh prices for green power and higher California Independent System Operator fees to integrate renewable energy into the California grid. These costs are unavoidable and expected to increase as the California RPS targets increase.
Tiered and Seasonal Rates	
Councilmember Gardner 6 **What would be the impact of eliminating tiers? Are they required? If tiers are mandatory, where does the mandate come from? How could Riverside attempt to influence the mandate? What would utility cost and revenue look like with just a lifeline allowance and a flat rate thereafter?**	Please see Attachment 2 for a comprehensive response to all questions regarding tiered and seasonal water rates. Tiered and seasonal water rates are neither prohibited nor required under California law. These rates are used by water providers to allocate costs for reliable water service in a fair and equitable way. Water service that is less expensive and meets basic health and safety needs for all customers is priced at the lower tiers, and water service that is more expensive and requires additional infrastructure is priced at the higher tiers or summer rates. Staff has no data to justify anticipating an increase in revenues as a result of eliminating the water rate tiers. However, elimination of water rate tiers by transitioning to a uniform volumetric rate will have the impact of increasing the costs of customers who use less water

Questions/Comments	Answers/Responses
	overall, including the increased cost of the first 9 hundred cubic feet (ccf) of water each month for single family homes and the first 7 ccf for multi-family homes. This lowest cost tier, which every residential customer receives, would increase if water costs were simply averaged to create a uniform volumetric rate. As a result, the 36% of RPU customers who currently do not use water outside the lowest cost tier would see a large increase to their water bills. This translates to 20,192 RPU water customers; 3,355 are located in Ward 1, 2,503 are located in Ward 2, 3,683 are located in Ward 3, 694 are located in Ward 4, 3,966 are located in Ward 5, 2,887 are located in Ward 6, and 3,104 are located in Ward 7. Low-income and fixed income customers would be the most significantly impacted. They would now be incurring the costs associated with peak system infrastructure requirements even though they are most typically not the customers causing the need. The residential customers who will benefit from this approach will be high water use customers.
<u>Councilmember Soubirous 2</u> **Look into budget-based pricing, and eliminating tiers 4 and 3, as well as summer/winter rates.**	Please see Attachment 2 for a comprehensive response to all questions regarding tiered and seasonal water rates. Tiered and seasonal water rates are used by 67% of the approximately 400 California water providers to allocate costs for reliable water service in a fair and equitable way. Water service that is less expensive and meets basic health and safety needs for all customers is priced at the lower tiers, and water service that is more expensive and requires additional infrastructure is priced at the higher tiers or summer rates. Budget-based tiered rates are a different type of tiered rate. **Changing to budget-based tiered rates would not eliminate the need for rate increases.** Budget-based tiered rates allocate water costs based on efficient levels of use for individual customers and their specific needs, such as the number of persons living in a household, size of yard, and type of landscape or home agricultural water use needs. RPU's current rate proposal makes modifications to the existing seasonally priced tiered rates to meet cost of service requirements and facilitate a transition to budget-based tiered rates, if desired. In order to establish budget-based tiered rates, a new cost of service study would need to be developed and each

Questions/Comments	Answers/Responses
	customer's water budget and tier allocations must be calculated individually. Before transitioning to budget-based tiered rates, an analysis of the administrative costs and system needs as well as the changes to the rate structure for each customer class should be undertaken. Depending on the results of this analysis, estimated costs for developing and implementing a budget-based tiered rate structure, based on the experience of other water agencies, could range anywhere from $300,000 to $800,000. If directed to do so, RPU staff will prepare an analysis of budget-based tiered rates for Board and City Council consideration. After consideration of the analysis, RPU could then develop a plan for a revenue-neutral conversion to budget-based tiered water rates for Board and City Council consideration.
Councilmember Conder 6 **Discuss impacts of terminating the tier system for both water and electric and transfer to a budget based system.**	Please see Attachment 2 for a comprehensive response to all questions regarding tiered and seasonal water rates. Tiered and seasonal water rates are used by water providers to allocate costs for reliable water service in a fair and equitable way. Water service that is less expensive and meets basic health and safety needs for all customers is priced at the lower tiers, and water service that is more expensive and requires additional infrastructure is priced at the higher tiers or summer rates. Elimination of water rate tiers by transitioning to a uniform volumetric rate will have the impact of increasing the costs of customers who use less water overall, including the increased cost of the first 9 hundred cubic feet (ccf) of water each month for single family homes and the first 7 ccf for multi-family homes. This lowest cost tier, which every residential customer receives, would increase if water costs were simply averaged to create a uniform volumetric rate. As a result, the 36% of RPU customers who currently do not use water outside the lowest cost tier would see a large increase to their water bills. This translates to 20,192 RPU water customers; 3,355 are located in Ward 1, 2,503 are located in Ward 2, 3,683 are located in Ward 3, 694 are located in Ward 4, 3,966 are located in Ward 5, 2,887 are located in Ward 6, and 3,104 are located in Ward 7. Low-income and fixed income customers would be the most significantly impacted. They would now be incurring the

Questions/Comments	Answers/Responses
	costs associated with peak system infrastructure requirements even though they are most typically not the customers causing the need. The residential customers who will benefit from this approach will be high water use customers. Budget-based tiered rates are a different type of tiered rate. Budget-based tiered rates allocate water costs based on efficient levels of use for individual customers and their specific needs, such as the number of persons living in a household, size of yard, and type of landscape or home agricultural water use needs. RPU's current rate proposal makes modifications to the existing seasonally priced tiered rates to meet cost of service requirements and facilitate a transition to budget-based tiered rates, if desired. In order to establish budget-based tiered rates, a new cost of service study would need to be developed and each customer's water budget and tier allocations must be calculated individually. Before transitioning to budget-based tiered rates, an analysis of the administrative costs and system needs as well as the changes to the rate structure for each customer class should be undertaken. Depending on the results of this analysis, estimated costs for developing and implementing a budget-based tiered rate structure, based on the experience of other water agencies, could range anywhere from $300,000 to $800,000. If directed to do so, RPU staff will prepare an analysis of budget-based tiered rates for Board and City Council consideration. After consideration of the analysis, RPU could then develop a plan for a revenue-neutral conversion to budget-based tiered water rates for Board and City Council consideration.
<u>Councilmember Conder 9</u> **Discuss impacts of terminating the differentiation between winter and summer rates for water and electrical usage.**	Please see Attachment 2 for a comprehensive response to all questions regarding tiered and seasonal water rates. Tiered and seasonal water rates are used by water providers to allocate costs for reliable water service in a fair and equitable way. Water service that is less expensive and meets basic health and safety needs for all customers is priced at the lower tiers, and water service that is more expensive and requires additional infrastructure is priced at the higher tiers or summer rates.

Questions/Comments	Answers/Responses
	Through a cost of service study, water supply and distribution infrastructure costs are determined to meet base (year-round) and peak (summer) water demands. The residential portion of these costs are then allocated to different tiers based on levels of use and seasonally for the highest tier. The lowest-cost water supplies are allocated to the lowest tiers to serve basic needs, the next lowest-cost water supplies are allocated to the middle tiers to serve average year-round needs, and the highest cost water supplies and peak infrastructure costs are allocated to the highest tiers to serve peak summer water needs. The result is a rate structure that fairly allocates water utility costs to all customer classes and levels of use.
<u>Councilmember Perry 1</u> **What are the advantages/disadvantages to single tier vs. multiple tiers?**	Please see Attachment 2 for a comprehensive response to all questions regarding tiered and seasonal water rates. Staff has no data to justify anticipating an increase in revenues as a result of eliminating the water rate tiers. However, elimination of water rate tiers by transitioning to a uniform volumetric rate will have the impact of increasing the costs of customers who use less water overall, including the increased cost of the first 9 hundred cubic feet (ccf) of water each month for single family homes and the first 7 ccf for multi-family homes. This lowest cost tier, which every residential customer receives, would increase if water costs were simply averaged to create a uniform volumetric rate. As a result, the 36% of RPU customers who currently do not use water outside the lowest cost tier would see a large increase to their water bills. This translates to 20,192 RPU water customers; 3,355 are located in Ward 1, 2,503 are located in Ward 2, 3,683 are located in Ward 3, 694 are located in Ward 4, 3,966 are located in Ward 5, 2,887 are located in Ward 6, and 3,104 are located in Ward 7. Low-income and fixed income customers would be the most significantly impacted. They would now be incurring the costs associated with peak system infrastructure requirements even though they are most typically not the customers causing the need. The residential customers who will benefit from this approach will be high water use customers.

Questions/Comments	Answers/Responses
Councilmember Adams 3 **How many rate tiers does the Riverside Electric Utility have vs other comparable cities?**	The RPU Electric Utility has three residential tiers that vary by season. Of eleven other comparable utilities, four utilities have two tiers, five utilities have three tiers, and two utilities have four tiers.
Councilmember Adams 5 **Justify winter/summer water rate differences.**	Please see Attachment 2 for a comprehensive response to all questions regarding tiered and seasonal water rates. Through a cost of service study, water supply and distribution infrastructure costs are determined to meet base (year-round) and peak (summer) water demands. The residential portion of these costs are then allocated to different tiers based on levels of use and seasonally for the highest tier. The lowest-cost water supplies are allocated to the lowest tiers to serve basic needs, the next lowest-cost water supplies are allocated to the middle tiers to serve average year-round needs, and the highest cost water supplies and peak infrastructure costs are allocated to the highest tiers to serve peak summer water needs. The result is a rate structure that fairly allocates water utility costs to all customer classes and levels of use.
Councilmember Adams 7 **Discuss potential revenue increases as a result of eliminating water rate tiers.**	Please see Attachment 2 for a comprehensive response to all questions regarding tiered and seasonal water rates. Staff has no data to justify anticipating an increase in revenues as a result of eliminating the water rate tiers. Eliminating the water rate tiers by transitioning to a uniform volumetric rate will have the impact of increasing the costs of customers who use less water overall, including the increased cost of the first 9 hundred cubic feet (ccf) of water each month for single family homes and the first 7 ccf for multi-family homes. This lowest cost tier, which every residential customer receives, would increase if water costs were simply averaged to create a uniform volumetric rate. As a result, the 36% of RPU customers who currently do not use water outside the lowest cost tier would see a large increase to their water bills. This translates to 20,192 RPU water customers; 3,355 are located in Ward 1, 2,503 are located in Ward 2, 3,683 are located in Ward 3, 694 are located in Ward 4, 3,966 are located in Ward 5, 2,887 are located in Ward 6, and 3,104 are located in Ward 7. Low-

Questions/Comments	Answers/Responses
	income and fixed income customers would be the most significantly impacted. They would now be incurring the costs associated with peak system infrastructure requirements even though they are most typically not the customers causing the need. The residential customers who will benefit from this approach will be high water use customers.

Organized by Council Member

Questions/Comments	Answers/Responses
Ward 1 – Councilmember Gardner	
Councilmember Gardner 1 **How can we reduce the 2018 rate increase and what is the impact of doing so on projects, reserve levels and bond ratings?**	Reducing the first year rate increase, scheduled to go into effect July 1, 2018, would have one or more of the following consequences: 1) an increase in future infrastructure replacement costs, resulting in higher future rates; 2) a reduction in reserves below the bare minimums, requiring higher rates to return to minimum reserve levels within three years as required by policy; 3) a reduction in bond credit ratings leading to higher borrowing costs.
Councilmember Gardner 2 **Can we quantify the extra capacity of the Gage Canal as it exists today (not pressurized, as an open gravity flow canal)?** • **How much more can the canal handle?** • **Is there existing but unused infrastructure that could be used to deliver Gage Canal water to parcels that used to take that water but do not any longer?** • **Does the Gage Canal regulatory framework permit prior customers to rejoin? If not can it be amended? What would that process entail?**	The challenge of the Gage Canal is not its carrying capacity, which is more than sufficient, but rather its operation as a non-pressurized ditch. The Gage Canal Company currently has about 290 customers, and only a portion of these customers can take their water allotment on any given day, with most receiving only two or three deliveries in a month. Most Gage customers have onsite reservoirs that store their allotment and use it over the course of several days. There is capacity to add more customers to the Gage Canal Company system. However, there are three questions that need to be answered: 1. Are the pipelines serving Gage Canal Company water to the new customers in adequate condition? 2. Do the new customers have adequate on-site storage to hold a few days of water supply? 3. Do the new customers have the electrical service and pump to pressurize the water? RPU is currently reviewing what customers could or should be converted to Gage Canal Company service. We are also trying to find funding to assist with the conversion work. As for RPU customers rejoining the Gage Canal Company, RPU already has such a mechanism in place. RPU allows

Questions/Comments	Answers/Responses
	any customer that is able to take water directly from the Gage Canal to do so under RPU's WA-8 water rate. RPU currently has nine customers who take water directly from the Gage Canal under the WA-8 rate; it is uncertain how many additional RPU customers are capable of taking Gage Canal water and converting to the WA-8 rate. The Gage Canal Company bills RPU for usage by RPU's WA-8 customers, and RPU in turn bills its WA-8 customers. The advantage to the RPU WA-8 customer is that RPU bears the risk of ownership in the Gage Canal Company, and the advantage to RPU is that we can ensure that the customer uses the water efficiently.
<u>Councilmember Gardner 3</u> **If additional Gage Canal Water could be used for irrigation how much potable water would we expect to be freed up for other purposes?** • **What do we project the value of that water to be if sold to an adjoining agency?** • **Could that revenue be used to fund additional Gage Canal infrastructure to enable more use of nonpotable water for irrigation thereby freeing up more potable for other beneficial use whether consumption by RPU customers or for sale to other agencies?**	At this time, the Gage Canal is carrying about 6,000 acre-feet per year of potable water to supplement its sources of non-potable water. Moving customers from the domestic system to the Gage Canal Company system will not increase RPU's water supply. On the other hand, if RPU could find a suitable non-potable water source to substitute for the 6,000 acre-feet per year of potable water introduced into the Gage Canal Company system, RPU could market that 6,000 acre-feet and realize a profit of about $3 million per year. If that revenue stream were used to finance bonds, RPU likely would have sufficient funding to modernize the Gage Canal. Benefits would include: 1. RPU customers with smaller lots would be able to use the Gage Canal Company system, as they will no longer need to have onsite reservoirs and pump systems; 2. All or a portion of the Gage Canal could be covered; 3. Zanjeros (ditch tenders) would no longer need to drive along the canal, making the canal path safe for use by pedestrians/bicyclists/horses along its entire length; and 4. With a pressurized system, all users would be able to use the most efficient irrigation methods, which would increase the water supply and allow even more users to take advantage of the system without the need to find more water supply. At this time, we have not identified a supplemental non-potable water source.

Questions/Comments	Answers/Responses
Councilmember Gardner 4 **Is there a legal way to broaden the interpretation of beneficial use and cost of service under Proposition 218 and other applicable law and regulation to include the value of side benefits like improved quality of life, a sustainable food system, the cooling effect of transpiration from crops, greater carbon monoxide uptake and increased oxygen output by irrigated crops, energy savings from more shade and lower temperature, etc.? The goal here is to enlarge the box to include benefits that are not currently included in the calculation of cost of service.**	Proposition 218 (1996 amendment to California Constitution) provides that water rates cannot exceed the cost to provide water service. If the rate exceeds the cost, then the local government must seek voter approval for the amount in excess of the cost. The City of Riverside did this in 2013, when Measure A asked voters to approve the water general fund transfer, which is a transfer of up to 11.5% of water utility gross revenues to the General Fund. Voters approved the transfer, and it remains in place. The core function of the water utility is to provide water service to its customers, and all costs charged to a customer must be related to the provision of that service. In order to justify a cost charged to ratepayers under Proposition 218, the water utility must show how the cost is related to the provision of water service. The side benefits from increased agricultural use of water contribute to the quality of life for all Riverside residents, but these benefits may not be related to the provision of water service and thus paid for by water ratepayers. In order to support beneficial uses of water under cost of service requirements, the City has multiple options, including: • Voter approval of water rates that exceed cost of service; and, • Non-water ratepayer funding of beneficial uses (e.g., use of wholesale water or lease revenues and/or General Fund revenues). The City Council has provided conceptual approval for the Board of Public Utilities to form an Ad Hoc Agricultural Rates Task Force to explore these and other options for Board and Council consideration.
Councilmember Gardner 5 **What is the customer that the proposed rates would add $3.00 a month to water and electric charges? What is their usage? Does this include the increase in fixed charges or only commodity charges?**	The typical RPU electric customer uses 592 kilowatt hours (kWh) of electricity per month. This customer's electric bill is expected to increase on average $3.10 per month for each year of the five-year rate proposal. The typical RPU water customer uses 19 hundred cubic feet (ccf) of water per month. This customer's water bill is expected to increase on average $3.50 per month for each year of the five-year rate proposal. These estimates of increases to monthly electric and water bills for typical customers are inclusive of both volumetric and fixed charges. RPU

Questions/Comments	Answers/Responses
	will provide more examples of different types of electric and water customers and the projected impacts of the rate proposal on their electric and water bills during the January workshop. These examples are in the staff presentation, Attachment 6.
Councilmember Gardner 6 **What would be the impact of eliminating tiers? Are they required? If tiers are mandatory, where does the mandate come from? How could Riverside attempt to influence the mandate? What would utility cost and revenue look like with just a lifeline allowance and a flat rate thereafter?**	Please see Attachment 2 for a comprehensive response to all questions regarding tiered and seasonal water rates. Tiered and seasonal water rates are neither prohibited nor required under California law. These rates are used by water providers to allocate costs for reliable water service in a fair and equitable way. Water service that is less expensive and meets basic health and safety needs for all customers is priced at the lower tiers, and water service that is more expensive and requires additional infrastructure is priced at the higher tiers or summer rates. Staff has no data to justify anticipating an increase in revenues as a result of eliminating the water rate tiers. However, elimination of water rate tiers by transitioning to a uniform volumetric rate will have the impact of increasing the costs of customers who use less water overall, including the increased cost of the first 9 hundred cubic feet (ccf) of water each month for single family homes and the first 7 ccf for multi-family homes. This lowest cost tier, which every residential customer receives, would increase if water costs were simply averaged to create a uniform volumetric rate. As a result, the 36% of RPU customers who currently do not use water outside the lowest cost tier would see a large increase to their water bills. This translates to 20,192 RPU water customers; 3,355 are located in Ward 1, 2,503 are located in Ward 2, 3,683 are located in Ward 3, 694 are located in Ward 4, 3,966 are located in Ward 5, 2,887 are located in Ward 6, and 3,104 are located in Ward 7. Low-income and fixed income customers would be the most significantly impacted. They would now be incurring the costs associated with peak system infrastructure requirements even though they are most typically not the customers causing the need. The residential customers who will benefit from this approach will be high water use customers.

Questions/Comments	Answers/Responses

Ward 3 – Councilmember Soubirous

Councilmember Soubirous 1

Illustrate with easy to read and verifiable data why we need a rate increase for water and electric versus cutting back on staff, pay, cutting other costs or taking any other cost-cutting action.

Why does RPU need a rate increase for the electric and water utilities? Because current electric and water rates provide insufficient revenues to meet future expenses. The following table compares projected RPU revenues under existing rates to projected RPU costs under Utility 2.0 Modified Option 1 infrastructure plan over the next ten years:

Five-Year Rate Proposal (2018-2023)	Electric Utility	Water Utility
Required Revenues	$1,700,000,000	$345,000,000
Current Revenues	$1,563,000,000	$307,000,000
Revenue Shortfall	$137,000,000	$38,000,000
Average Revenue Shortfall Per Year	$27,400,000	$7,600,000

Please see Attachments 4 and 5 for specific information on infrastructure projects and other funding requirements under Utility 2.0 Modified Option 1.

Could RPU cut back on staff to cover this revenue shortfall? The following table illustrates how many staff would need to be cut to meet RPU's electric and water utility revenue needs:

Five-Year Rate Proposal (2018-2023)	Electric Utility	Water Utility
Average Revenue Shortfall Per Year	$27,400,000	$7,600,000
Average Cost Per Employee	$126,374	$120,486
Number of Employees Reduced	217	63
Total Employees	475	156
Percent Reduction of Total Employees	46%	40%

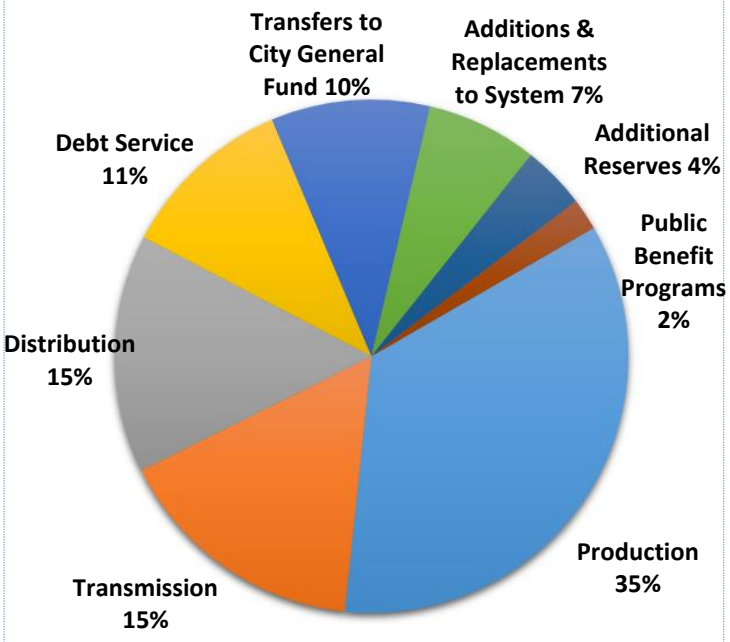
Cutting 40% of water utility staff and 46% of electric utility staff is unsustainable and would be detrimental to utility operations and customer experience. For example, less field crews available to respond to repairs and

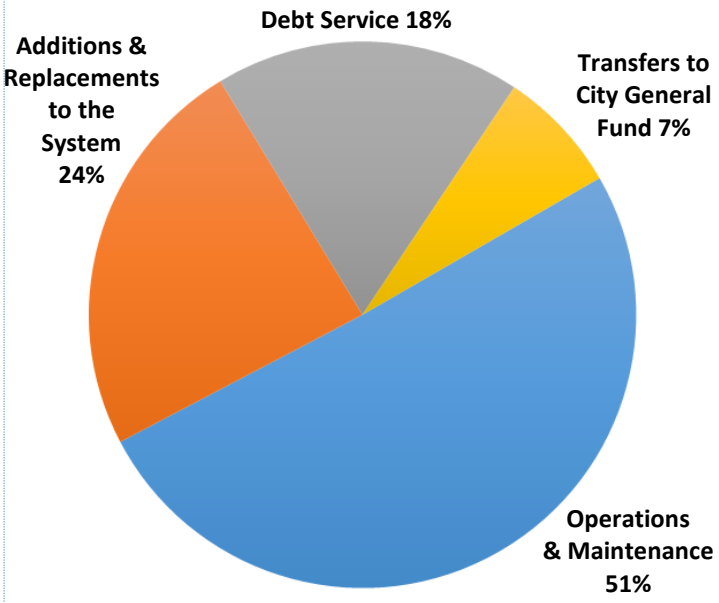
Questions/Comments	Answers/Responses
	customer requests will result in longer outages and wait times and higher overtime costs. The rate proposal includes no funding for additional employees over the next ten years, as well as additional staffing-related savings. For example, RPU is proposing to not fill and/or eliminate current executive management vacancies, including Deputy General Manager and Assistant General Manager – Customer Relations. In addition, State law requires all new hires to pay their full employee share of CalPERS retirement, and the City requires all existing employees to pay their full share within four years. These together result in savings of approximately $11.2 million over the next five years. Could RPU cut back on pay to cover this revenue shortfall? RPU must stay competitive with other utilities in order to attract and retain competent staff. In collaboration with our labor unions and as part of the multi-year labor contracts, compensation studies were recently conducted for RPU warranting pay increases, not decreases. Nevertheless, RPU continues to look for opportunities to further reduce labor costs. These same union agreements now require all employees to pay their full share of retirement costs (8%), saving RPU and the ratepayers millions of dollars annually. Could RPU cut back on other costs to cover this revenue shortfall? Yes, cutting back on costs will reduce RPU revenue needs, while also reducing reliable electric and water service. Please see Attachments 4 and 5 for cost-cutting options that would lead to lower rate increases.
<u>Councilmember Soubirous 2</u> **Look into budget-based pricing, and eliminating tiers 4 and 3, as well as summer/winter rates.**	Please see Attachment 2 for a comprehensive response to all questions regarding tiered and seasonal water rates. Tiered and seasonal water rates are used by 67% of the approximately 400 California water providers to allocate costs for reliable water service in a fair and equitable way. Water service that is less expensive and meets basic health and safety needs for all customers is priced at the lower tiers, and water service that is more expensive and requires additional infrastructure is priced at the higher tiers or summer rates.

Questions/Comments	Answers/Responses
	Budget-based tiered rates are a different type of tiered rate. **Changing to budget-based tiered rates would not eliminate the need for rate increases.** Budget-based tiered rates allocate water costs based on efficient levels of use for individual customers and their specific needs, such as the number of persons living in a household, size of yard, and type of landscape or home agricultural water use needs. RPU's current rate proposal makes modifications to the existing seasonally priced tiered rates to meet cost of service requirements and facilitate a transition to budget-based tiered rates, if desired. In order to establish budget-based tiered rates, a new cost of service study would need to be developed and each customer's water budget and tier allocations must be calculated individually. Before transitioning to budget-based tiered rates, an analysis of the administrative costs and system needs as well as the changes to the rate structure for each customer class should be undertaken. Depending on the results of this analysis, estimated costs for developing and implementing a budget-based tiered rate structure, based on the experience of other water agencies, could range anywhere from $300,000 to $800,000. If directed to do so, RPU staff will prepare an analysis of budget-based tiered rates for Board and City Council consideration. After consideration of the analysis, RPU could then develop a plan for a revenue-neutral conversion to budget-based tiered water rates for Board and City Council consideration.
<u>Councilmember Soubirous 3</u> **Why is the proposed rate increase for water so high? If we lower the price of water, drop the tiers, go with budget based pricing, why would the residents not use more water?**	Why is the water rate proposal so high? The electric and water rate proposals both result in the same average residential customer impact of approximately $3 per monthly bill. Additionally, the revised water rate proposal is 35% less than the original proposal. Anything less will result in unacceptable customer impacts. Why wouldn't Councilmember Adams's proposal work? Would lowering the price of water lead to increased use, offsetting the need for a rate increase? First, while RPU encourages the full beneficial use of our water supply, RPU is prevented by the California Constitution (Article X, Section 2) to encourage wasteful, inefficient use of its water supply. Even under non-drought conditions, RPU customers are finding ways to use water more efficiently, including the installation of water-efficient appliances and irrigation systems. This has led to an overall declining trend in water use, which is only partially offset by

Questions/Comments	Answers/Responses
	growth because building codes now require high levels of water efficiency. All water suppliers are also subject to a law passed in 2009, SBX7-7, which requires a 20% reduction in water use by 2020. Reducing the cost of water would have a marginal impact, if any, on this market trend, as more efficient appliances and irrigation systems will continue to use less water regardless of water prices. Additionally, from a technical perspective, "elasticity" is a measure of how demand changes based on pricing changes. Staff estimates, based on historical RPU customer data, that the water elasticity coefficient for RPU residential customers is about -0.3. In other words, a 1% rate increase will result in about a 0.3% decrease in water sales, and a 1% rate decrease will result in about a 0.3% increase in water sales. This is because the demand for water – particularly for indoor household use and for use in commercial or industrial uses – does not change much due to price changes. Basically, each person essentially drinks a certain amount of water and uses a certain amount of water for cleaning, cooking, and other such uses, regardless of whether the price is lower or higher. Thus, reducing the cost of water by 2% will only result in a 0.6% increase in sales, which translates to a 1.4% decrease in net revenues for the utility. RPU cannot increase its water revenues by decreasing rates. Would dropping water tiers be a solution? Staff has no data to justify anticipating an increase in revenues as a result of eliminating the water rate tiers. Tiered rates are used by 67% of California water providers to allocate costs for reliable water service in a fair and equitable way. Elimination of water rate tiers by transitioning to a uniform volumetric rate will have the impact of increasing the costs of customers who use less water overall, including the increased cost of the first 9 hundred cubic feet (ccf) of water each month for single family homes and the first 7 ccf for multi-family homes. This lowest cost tier, which every residential customer receives, would increase if water costs were simply averaged to create a uniform volumetric rate. As a result, the 36% of RPU customers who currently do not use water outside the lowest cost tier would see a large increase to their water bills. This translates to 20,192 RPU water customers; 3,355 are located in Ward 1, 2,503 are located in Ward 2, 3,683 are located in Ward 3, 694 are

Questions/Comments	Answers/Responses
	located in Ward 4, 3,966 are located in Ward 5, 2,887 are located in Ward 6, and 3,104 are located in Ward 7. Low-income and fixed income customers would be the most significantly impacted. They would now be incurring the costs associated with peak system infrastructure requirements even though they are most typically not the customers causing the need. The residential customers who will benefit from this approach will be high water use customers. Would a change to budget-based pricing be a solution? Budget-based tiered rates are a different type of tiered rate. **Changing to budget-based tiered rates would not eliminate the need for rate increases.** Budget-based tiered rates allocate water costs based on efficient levels of use for individual customers and their specific needs, such as the number of persons living in a household, size of yard, and type of landscape or home agricultural water use needs. RPU's current rate proposal makes modifications to the existing seasonally priced tiered rates to meet cost of service requirements and facilitate a transition to budget-based tiered rates, if desired. In order to establish budget-based tiered rates, a new cost of service study would need to be developed and each customer's water budget and tier allocations must be calculated individually. Before transitioning to budget-based tiered rates, an analysis of the administrative costs and system needs as well as the changes to the rate structure for each customer class should be undertaken. Depending on the results of this analysis, estimated costs for developing and implementing a budget-based tiered rate structure, based on the experience of other water agencies, could range anywhere from $300,000 to $800,000. If directed to do so, RPU staff will prepare an analysis of budget-based tiered rates for Board and City Council consideration. After consideration of the analysis, RPU could then develop a plan for a revenue-neutral conversion to budget-based tiered water rates for Board and City Council consideration.
Ward 4 – Councilmember Conder	
<u>Councilmember Conder 1</u> **How many current customers do we have on both sides of the utility? Residential and commercial?**	As of June 30, 2017, RPU has 109,274 electric customers and 65,428 water customers. Of these, RPU has 97,372 residential and 11,902 commercial/other electric accounts and 59,453 residential and 5,975 commercial/other water accounts.

Questions/Comments	Answers/Responses
Councilmember Conder 2 **What was RPU's revenue for the past 5 years, by year for both the Electric and Water side of the utility, from customer charges.**	RPU's revenues (in thousands) for the past five years by utility are as follows: **Fiscal Year** / **Electric** / Water FY 2016-17 / $395,153 / $68,068 FY 2015-16 / $392,399 / $63,264 FY 2014-15 / $357,394 / $71,594 FY 2013-14 / $357,234 / $73,621 FY 2012-13 / $359,118 / $73,932 RPU's annual financial reports for the past 30 years can be found on the following webpage: www.RiversidePublicUtilities.com/about-rpu/annual-reports.asp.
Councilmember Conder 3 **Where were those funds committed to? i.e. how much to salaries, overtime, operations, infrastructure, emergency repairs, inventory?**	The charts below reflect the distribution of utility revenues based on RPU's latest Annual Financial Report (www.RiversidePublicUtilities.com/about-rpu/annual-reports.asp): **ELECTRIC FUND DISTRIBUTION OF REVENUE** 

Questions/Comments	Answers/Responses
	WATER FUND DISTRIBUTION OF REVENUE  2017 Salaries, Benefits and Overtime are included in the above costs and are as follows:

(in thousands)	Electric	Water
Personnel Costs:		
Salaries	$33,981	$11,424
Benefits	$16,107	$5,950
Overtime	$4,244	$2,381
Total Personnel Costs	**$54,332**	**$19,755**
Personnel costs – charged to Operations	$47,763	$14,112
Personnel costs – charged to Capital Projects	$6,569	$5,643
2017 Infrastructure Costs (Capital Projects)	$27,999	$18,634

Councilmember Conder 4 **What are the expected "new revenues", to both Water and Electric, that will be generated if we pass the requested rate increase?**	Incremental annual revenues are estimated at $27.4 million for electric and $7.6 million for water.

Questions/Comments	Answers/Responses
Councilmember Conder 5 **What will happen if the new rate increase drives down usage and revenues come in short?**	Each year, RPU will evaluate and provide the City Council with a report on all aspects of rate plan implementation, anticipated revenues and infrastructure spending, including recommendations, if any, for rate adjustments needed to meet RPU goals as established by the City Council. At the November 28, 2017 workshop, the City Council approved a rate plan review and oversight process, wherein each December beginning in 2019 RPU will provide an update on the status of rate plan spending and a five-year rate preview/forecast for years 2023-2027 to the Board of Public Utilities and City Council with (a) City Council ability to reopen discussion of the current rate plan by a majority vote; (b) review of annual 5-year forecast to avoid future potential "stair step" increases; (c) by the end of 2021, as part of Fiscal Year 2022-24 Two-Year Budget, a new 5-year rate package to be presented for consideration starting in July 2023; and (d) the process of rate review and proposals to continue into the future, even if *de minimis*.
Councilmember Conder 6 **Discuss impacts of terminating the tier system for both water and electric and transfer to a budget based system.**	Please see Attachment 2 for a comprehensive response to all questions regarding tiered and seasonal water rates. Tiered and seasonal water rates are used by water providers to allocate costs for reliable water service in a fair and equitable way. Water service that is less expensive and meets basic health and safety needs for all customers is priced at the lower tiers, and water service that is more expensive and requires additional infrastructure is priced at the higher tiers or summer rates. Elimination of water rate tiers by transitioning to a uniform volumetric rate will have the impact of increasing the costs of customers who use less water overall, including the increased cost of the first 9 hundred cubic feet (ccf) of water each month for single family homes and the first 7 ccf for multi-family homes. This lowest cost tier, which every residential customer receives, would increase if water costs were simply averaged to create a uniform volumetric rate. As a result, the 36% of RPU customers who currently do not use water outside the lowest cost tier would see a large increase to their water bills. This translates to 20,192 RPU water customers; 3,355 are located in Ward 1, 2,503 are located in Ward 2, 3,683 are located in Ward 3, 694 are

Questions/Comments	Answers/Responses
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<u>Councilmember Conder 7</u> **Discuss impacts of a 2% reduction for a one year period in the electric and water rates charged to RPU customers.**	In the opinion of RPU's financial advisor, PFM Financial Advisors LLC (PFM), the 2% reduction scenario would result in a certain downgrade from S&P and possible downgrades from Fitch and Moody's absent a reduction in planned capital spending below status quo levels – or the level of capital spending required to maintain the existing level of infrastructure. The potential rating outcomes under this scenario over time will lead to significantly higher financing costs, upwards of $1 million

Questions/Comments	Answers/Responses
	per year for every $100 million borrowed. Additionally, RPU will pay more for lines of credit and variable rate products.
Councilmember Conder 8 **Discuss impacts of a 5% decrease in the non-operational RPU budget, including administrative salaries and overtime.**	A 5% reduction to the administrative and operational portion of RPU's Fiscal Year 2018-19 budget would result in a savings of $3.5 million for the electric utility and $1.7 million for the water utility. This does not include capital improvement infrastructure projects, electric power supply, and other fixed costs. To make these reductions, 28 positions would have to be eliminated on the electric side, and additional 14 positions on the water side – representing 7% and 10% of the electric and water workforce, respectively. Such drastic reductions will significantly impact service levels (repairs, troubleshooting, customer service, etc.) as well as delivery of capital projects. The rate proposal includes no funding for additional employees over the next ten years, as well as additional staffing-related savings. For example, RPU is proposing to not fill and/or eliminate current executive management vacancies, including Deputy General Manager and Assistant General Manager – Customer Relations. In addition, State law requires all new hires to pay their full employee share of CalPERS retirement, and the City requires all existing employees to pay their full share within four years. These together result in savings of approximately $11.2 million over the next five years..
Councilmember Conder 9 **Discuss impacts of terminating the differentiation between winter and summer rates for water and electrical usage.**	Please see Attachment 2 for a comprehensive response to all questions regarding tiered and seasonal water rates. Tiered and seasonal water rates are used by water providers to allocate costs for reliable water service in a fair and equitable way. Water service that is less expensive and meets basic health and safety needs for all customers is priced at the lower tiers, and water service that is more expensive and requires additional infrastructure is priced at the higher tiers or summer rates. Through a cost of service study, water supply and distribution infrastructure costs are determined to meet base (year-round) and peak (summer) water demands. The residential portion of these costs are then allocated

Questions/Comments	Answers/Responses
	to different tiers based on levels of use and seasonally for the highest tier. The lowest-cost water supplies are allocated to the lowest tiers to serve basic needs, the next lowest-cost water supplies are allocated to the middle tiers to serve average year-round needs, and the highest cost water supplies and peak infrastructure costs are allocated to the highest tiers to serve peak summer water needs. The result is a rate structure that fairly allocates water utility costs to all customer classes and levels of use.
Councilmember Conder 10 **Discuss impacts of reducing the General Fund Transfer.**	For every 0.5% decrease in the General Fund Transfer from the electric and water utilities, the General Fund will be impacted by $2 million. For example, if the existing 11.5% GFT is lowered to 11%, the impact is $2 million and if the existing GFT is lowered to 10%, the impact is $6 million.
Ward 5 – Councilmember Mac Arthur	
Councilmember Mac Arthur 1 **Please show what a 2%, 3%, 4% and 5% rate increase would have on the debt service coverage (DSC) ratio, the days cash on hand (DCOH) metric, and the RPU bond ratings?**	Yes. In the opinion of RPU's financial advisor, PFM Financial Advisors LLC (PFM), the 2-3% scenarios would result in a certain downgrade from S&P and possible downgrades from Fitch and Moody's absent a reduction in planned capital spending below status quo levels – or the level of capital spending required to maintain the existing level of infrastructure. Falling below a 1.7x debt service coverage (DSC) ratio will put pressure on the rating without stronger offsetting days cash on hand (DCOH) (300+ days). Moving beyond the 5-year forecast that we would show to rating agencies next year, the water system is at risk of future downgrades across all three rating agencies, and would certainly have to increase rates to avoid a deficit in the out years. Similarly, the 4% scenario likely gets a downgrade by S&P next year, and moving forward the AA+ from Fitch (and the downgraded S&P rating) would be at risk as DSC falls below 1.7x and DCOH below 150 days. The 5% scenario has minimal risk over the next 5-years, but in subsequent years RPU's financial metrics start to fall out of AAA/AA+ levels, likely necessitating larger rate increases in the out years than currently contemplated in order to preserve RPU's ratings. The potential rating outcomes for the 2%, 3%, 4% scenarios over time will lead to significantly higher financing costs, upwards of $1 million per year for every $100 million borrowed. Additionally, RPU will pay more for lines of credit and variable rate products.

Questions/Comments	Answers/Responses
Councilmember Mac Arthur 2 Will the GFT increase as a result of the electric and water rate increases?	There will be an increase in the General Fund Transfer amount as a result of electric and water rate increases. However, the City as a water and electric customer is already paying nearly $1 million annually to RPU from the General Fund (for water use in parks, and water and electric use in recreation centers, libraries, fire stations, and other facilities). As a customer, the City will see its annual payments to RPU going up following the rate increases. In the next two years, any increases in GFT revenue will be offset by the City's increased water and electric costs. In the years that follow, there could be incremental positive GFT revenues, potentially around $1 million annually. At the time the City Council considers budgets for these future years (two years from now), they can decide whether any incremental GFT revenue should be used to sustain General Fund services, or to delay or forgo an RPU rate increase in those fiscal years.
Ward 6 – Councilmember Perry	
Councilmember Perry 1 **What are the advantages/disadvantages to single tier vs. multiple tiers?**	Please see Attachment 2 for a comprehensive response to all questions regarding tiered and seasonal water rates. Staff has no data to justify anticipating an increase in revenues as a result of eliminating the water rate tiers. However, elimination of water rate tiers by transitioning to a uniform volumetric rate will have the impact of increasing the costs of customers who use less water overall, including the increased cost of the first 9 hundred cubic feet (ccf) of water each month for single family homes and the first 7 ccf for multi-family homes. This lowest cost tier, which every residential customer receives, would increase if water costs were simply averaged to create a uniform volumetric rate. As a result, the 36% of RPU customers who currently do not use water outside the lowest cost tier would see a large increase to their water bills. This translates to 20,192 RPU water customers; 3,355 are located in Ward 1, 2,503 are located in Ward 2, 3,683 are located in Ward 3, 694 are located in Ward 4, 3,966 are located in Ward 5, 2,887 are located in Ward 6, and 3,104 are located in Ward 7. Low-income and fixed income customers would be the most significantly impacted. They would now be incurring the costs associated with peak system infrastructure

Questions/Comments	Answers/Responses
	requirements even though they are most typically not the customers causing the need. The residential customers who will benefit from this approach will be high water use customers.
Councilmember Perry 2 **What is the impact and what decisions would the Council have to make if we considered reducing the GFT?**	For every 0.5% decrease in the General Fund Transfer from the electric and water utilities, the General Fund will be impacted by $2 million. For example, if the existing 11.5% GFT is lowered to 11%, the impact is $2 million and if the existing GFT is lowered to 10%, the impact is $6 million. These reduced revenues to the General Fund would have to be balanced with reduction in General Fund spending. With public safety accounting for over two-thirds of the General Fund budget, police and fire would experience the largest reductions. Any such reductions would be on top of General Fund deficits already projected for the next two years.
Councilmember Perry 3 **What's the impact of setting back the increase date from 4/1/18 to 7/1/18?**	The impact of setting back the electric utility rate increase date from 4/1/18 to 7/1/18 is a loss of $1.9 million in revenues. The impact of setting back the water utility rate increase date from 4/1/18 to 7/1/18 is a loss of $520,000 in revenues. Due to implementation and Proposition 218 notification requirements, this delay in the rate increase date is now unavoidable and has been incorporated into the revised rate proposal being presented at the January workshop.
Councilmember Perry 4 **Is there data to show a 2% decrease would stimulate usage and increase revenue?**	Staff has no data to justify a decrease in rates in order to raise revenues. RPU encourages the full beneficial use of our water supply. However, Riverside is prevented by the California Constitution (Article X, Section 2) to encourage wasteful, inefficient use of its water supply. Even under non-drought conditions, RPU customers are finding ways to use water more efficiently, including the installation of water-efficient appliances and irrigation systems. This has led to an overall declining trend in water use, which is only partially offset by growth because building codes now require high levels of water efficiency. Reducing the cost of water would have a marginal impact, if any, on this trend, as more efficient appliances and irrigation systems will continue to use less water regardless of water prices.

Questions/Comments	Answers/Responses
	From a technical perspective, "elasticity" is a measure of how demand changes based on pricing changes. Staff estimates, based on historical RPU customer data, that the water elasticity coefficient for RPU customers is about -0.3. In other words, a 1% rate increase will result in about a 0.3% decrease in water sales, and a 1% rate decrease will result in about a 0.3% increase in water sales. This is because the demand for water - particularly for indoor household use and for use in commercial or industrial uses - does not change much due to price changes. Basically, each person essentially drinks a certain amount of water and uses a certain amount of water for cleaning, cooking, and other such uses, regardless of whether the price is lower or higher. In the simplest of terms, our customers will not drink more water each day simply because water costs less. Thus, reducing the cost of water by 2% will only result in a 0.6% increase in sales, which translates to a 1.4% decrease in net revenues for the utility. RPU cannot increase its water revenues by decreasing rates.
Councilmember Perry 5 **What would a 2.7% increase in electric and a 4.75% increase in water look like?**	A 2.7% increase in electric would eliminate the Citywide LED Lamp Replacement Program for residential and arterial street lighting systems (shifting use of carbon reduction credits to renewable energy), reduce outage management, and delay rollout of advance metering infrastructure. A 4.75% increase in water would eliminate work, asset and inventory management systems, eliminate future phases of the operations data management system, reduce SCADA network communications improvements, and delay rollout of advance metering infrastructure. See Attachments 4 and 5 for details on spending cuts that will be required under this scenario.
Councilmember Perry 6 **Upon reviewing the 5 year rate structure, the highest increase is in the last year. Is this to offset the first year? What happens in the following years (6-10)?**	One of the primary messages RPU received from the business community was to minimize the proposed rate increases in the first year of implementation, because most businesses have already set their budgets for the year. RPU is proposing a minimum increase in the first year of 2.95% for electric and 4.50% for water. In order to fund infrastructure investments consistent with Modified Option 1, rate increases in out years need to be higher in order to offset lower increases in the near term. Modified Option 1 is a 10-year infrastructure plan and will require 10 years of investments in the electric and

Questions/Comments	Answers/Responses
	water systems. In order to make the investments required to meet Modified Option 1 infrastructure goals, staff currently projects the need for annual average rate increases of 3.0% for electric and 6.5% for water for Years 6-10. These projections are contingent on utility financial and capital improvement performance in Years 1-5. Staff is not asking the Board and City Council to set rates for Years 6-10 at this time. RPU will refine these projected rates for Years 6-10 and report to Board and City Council every December starting in 2019.
Councilmember Perry 7 **How does current state legislation impact our utility rates as it relates to renewable energy?**	Power purchases account for approximately 60% of RPU's overall electric operating budget. Current California Renewable Portfolio Standard (RPS) mandates continue to drive up RPU's power supply costs and thus account for a significant percentage of the proposed minimum rate increase needs. For example, the average cost for RPU's renewable energy portfolio in Fiscal Year 2016-17 was 7.1 cents/kWh; this cost is expected to increase to 8.2 cents/kWh by Fiscal Year 2026-27. In contrast, the current average cost for RPU's non-renewable energy portfolio is expected to remain stable at 6.0 cents/kWh over that same time period. These increasing costs for renewable energy impact RPU's budget both through higher $/kWh prices for green power and higher California Independent System Operator fees to integrate renewable energy into the California grid. These costs are unavoidable and expected to increase as the California RPS targets increase.
Councilmember Perry 8 **Does this rate increase proposal conflict with either Prop 218 or Prop 26?**	Proposition 218 (1996) and Proposition 26 (2010) are both amendments to the California Constitution and generally mandate that rates for the provision of electric (Proposition 26) and water service (Proposition 218) cannot exceed the cost of providing that service unless voters approve the excess amount. Prior to proposing electric and water rate increases, the City estimated the amount of revenue needed by the electric and water utilities to provide service. The City then reviewed all classes of ratepayers in order to determine if, under the current rate structure, the City would be under-collecting (or over-collecting) costs to provide those services. This review was based upon the projected revenue needs of each utility. The proposed rate plan was designed to appropriately collect from ratepayers the charges for such service in compliance

Questions/Comments	Answers/Responses
	with Proposition 218 and Proposition 26. The City will carefully review any changes to the current proposed rate plan to make sure that the rates continue to comply with Proposition 218 and Proposition 26.
Councilmember Perry 9 **Do we have access to bond revenue? How does this impact our bond rating?**	All electric and water utility bond revenues have been exhausted. The last electric utility bonds were issued in December 2010 and proceeds were depleted by June 2016. The last water utility bonds were issued in December 2009 and proceeds were depleted by April 2015. Why can't RPU just issue more bonds and incur more debt? Current electric and water utility revenues support the bonds that have already been issued and used. In order to issue new bonds, RPU needs new revenues in order to pay back the new bonds over time. New revenues require a rate increase. In short, without a rate increase, RPU does not have the ability to issue new debt until RPU's existing debt is paid down. How does this impact RPU's bond rating? Without a rate increase, RPU's credit rating will be downgraded one or more levels, which will make borrowing much more expensive and ultimately lead to higher costs that will translate into higher rate increases in the future to cover these costs.
Councilmember Perry 10 **Provide clear examples of past, present and potential future infrastructure issues, Citywide and by Ward.**	Each annual and biannual city budget includes proposed capital improvement infrastructure projects which address infrastructure issues. The following are examples of past, present, and potential future infrastructure issues addressed by capital improvement infrastructure projects incorporated into annual and biannual city budgets: • Power pole replacement projects are intended to address poles that are aging, decaying due to weather and/or termite damage, and are failing or will soon begin to fail. • Underground cable replacement projects address underground cables and infrastructure that are aging, failing, or will soon begin to fail. • Underground vault rehabilitation projects address underground vaults where utility system components are corroding and/or concrete is compromised and is spalling or cracking.

Questions/Comments	Answers/Responses
	• Substation equipment replacements and upgrades address substation equipment and components which are reaching the end of their service life, failing, or will soon begin to fail. The presentation for the January workshop will show examples of current and future infrastructure issues that need to be addressed through the revised rate plan. Maps showing proposed projects addressing infrastructure issues by ward will be provided during infrastructure tours being scheduled with each council member and city management; this information will also be posted on the following webpage: www.RiversidePublicUtilities.com/RatePlan/documents.asp. For additional information, please see the Utility 2.0 Electric and Water Infrastructure Roadmaps for a detailed discussion of utility infrastructure needs and options for future replacement: www.RiversidePublicUtilities.com/utility20. The current rate proposal is based on Utility 2.0 Modified Option 1. Also, please see the Utilities portion of the City's Capital Improvement Program for a detailed discussion of infrastructure replacement plans funded through the City's current Biannual Budget: www.RiversidePublicUtilities.com/finance/cip-overview.asp.
Councilmember Perry 11 **What impact if any does freezing the Ag rates for one year have on others customers and how does it affect the 5 year projections?**	The first year of the proposed rate plan provides for no rate increase for WA-3 and WA-9 (agricultural) customers. Freezing WA-3 and WA-9 rates for one year will result in $24,000 less revenue to the water utility. This lost revenue will be subsidized by an increase to other water customers' rates.
Councilmember Perry 12 **Can you summarize the delinquent payment information and does it impact our rates?**	RPU's delinquency rates (net write-offs of delinquent accounts) is 0.2% for electric and 0.1% for water, comparing favorably to the utility industry average delinquency rate of 0.28%. As of June 30, 2017, RPU's net write-offs totaled $732,000 on total rate-generated revenues of $363 million for the year. The average for the past five years has been $797,000. RPU pursues delinquent payments through billing system-generated urgent notices, 48-hour tags, and shut-off work orders for active accounts and pre-collection letters and credit and collections tracking for inactive accounts. Due to implementation of a new bill collection process in August

Questions/Comments	Answers/Responses
	2016, RPU has been able to reduce the average monthly number of accounts sent to collections from 400 to 250.
Ward 7 – Councilmember Adams	
Councilmember Adams 1 **Five years ago the council voted to add three new dispatchers to the electric utility for immediate hire specifically to reduce and or eliminate the outrageous if not amoral overtime. Why were they not hired immediately upon discovery of the issue and the approved solution?**	In 2012-2013, RPU's dispatch unit was fully staffed with ten authorized positions, plus two additional positions in anticipation of pending retirements. RPU accepts responsibility for large overtime payments in the past, and has taken proactive steps to fix the problem. Dispatcher overtime reached its highest levels in Calendar Year 2016, when staffing levels fell below nine full-time equivalent dispatch positions for portions of the year. Upon discovery, RPU immediately initiated a hiring process with the Human Resources Department. Four dispatchers (one vacancy and three new positions) and one dispatch superintendent were hired in 2017. **Months after the overtime problem was discovered, the dispatch section is now fully staffed.** Additionally, RPU has taken immediate steps to strengthen overtime approvals, which will lead to a reduction in overtime use. Bi-weekly overtime reporting, as well as new management actions to curb overtime, have been implemented. Monthly reports are generated for ongoing overtime monitoring and management. These actions should collectively lead to overtime reduction to normal levels in Calendar Year 2018. Normal overtime levels account for employee vacation, sick, and leave time associated with operations of a twenty-four hour, seven-days-a-week dispatch center.
Councilmember Adams 2 **When and how did the current leadership take the steps to fill the three dispatch positions and stop excessive overtime?**	Dispatcher overtime reached its highest levels in Calendar Year 2016, when staffing levels fell below nine full-time equivalent dispatch positions for portions of the year. Upon discovery, RPU immediately initiated a hiring process with the Human Resources Department. Four dispatchers (one vacancy and three new positions) and one dispatch superintendent were hired in 2017. **Months after the overtime problem was discovered, the dispatch section is now fully staffed.** Additionally, RPU has taken immediate steps to strengthen overtime approvals, which will lead to a reduction in overtime use. Bi-weekly overtime reporting, as well as new management actions to curb overtime, have been implemented. Monthly reports are generated for ongoing

Questions/Comments	Answers/Responses
	overtime monitoring and management. These actions should collectively lead to overtime reduction to normal levels in Calendar Year 2018. Normal overtime levels account for employee vacation, sick, and leave time associated with operations of a twenty-four hour, seven-days-a-week dispatch center.
Councilmember Adams 3 **How many rate tiers does the Riverside Electric Utility have vs other comparable cities?**	The RPU Electric Utility has three residential tiers that vary by season. Of eleven other comparable utilities, four utilities have two tiers, five utilities have three tiers, and two utilities have four tiers.
Councilmember Adams 4 **How much of RPU's revenue is coming from State and Federal sources, and contracted partners?**	RPU estimates it will receive $36-40 million per year in transmission revenues from the California Independent System Operator over next 5 years and $15 million in California Cap and Trade Program revenues over the next 3 years. Additionally, RPU expects to generate $3-5 million per year in excess renewable energy sales, $750,000 per year through selling scheduling coordinator services to the cities of Banning and Rancho Cucamonga, and $100 million over the next 20 years through the Western Wheeling and Excess Commodity Agreement. Finally, the 55-year lease with Hillwood will potentially generate up to $45 million.
Councilmember Adams 5 **Justify winter/summer water rate differences.**	Please see Attachment 2 for a comprehensive response to all questions regarding tiered and seasonal water rates. Through a cost of service study, water supply and distribution infrastructure costs are determined to meet base (year-round) and peak (summer) water demands. The residential portion of these costs are then allocated to different tiers based on levels of use and seasonally for the highest tier. The lowest-cost water supplies are allocated to the lowest tiers to serve basic needs, the next lowest-cost water supplies are allocated to the middle tiers to serve average year-round needs, and the highest cost water supplies and peak infrastructure costs are allocated to the highest tiers to serve peak summer water needs. The result is a rate structure that fairly allocates water utility costs to all customer classes and levels of use.
Councilmember Adams 6	A 5% reduction to the administrative and operational portion of RPU's Fiscal Year 2018-19 budget would result

Questions/Comments	Answers/Responses
What savings will be realized when the utility cuts 5% off their administration budget, (not the infrastructure Budget) for the year 2018 and then another 5% for 2019?	in a savings of $3.5 million for the electric utility and $1.7 million for the water utility. This does not include capital improvement infrastructure projects, electric power supply, and other fixed costs. To make these reductions, 28 positions would have to be eliminated on the electric side, and additional 14 positions on the water side – representing 7% and 10% of the electric and water workforce, respectively. Such drastic reductions will significantly impact service levels (repairs, troubleshooting, customer service, etc.) as well as delivery of capital projects. The rate proposal includes no funding for additional employees over the next ten years, as well as additional staffing-related savings. For example, RPU is proposing to not fill and/or eliminate current executive management vacancies, including Deputy General Manager and Assistant General Manager – Customer Relations. In addition, State law requires all new hires to pay their full employee share of CalPERS retirement, and the City requires all existing employees to pay their full share within four years. These together result in savings of approximately $11.2 million over the next five years.
<u>Councilmember Adams 7</u> **Discuss potential revenue increases as a result of eliminating water rate tiers.**	Staff has no data to justify anticipating an increase in revenues as a result of eliminating the water rate tiers. Eliminating the water rate tiers by transitioning to a uniform volumetric rate will have the impact of increasing the costs of customers who use less water overall, including the increased cost of the first 9 hundred cubic feet (ccf) of water each month for single family homes and the first 7 ccf for multi-family homes. This lowest cost tier, which every residential customer receives, would increase if water costs were simply averaged to create a uniform volumetric rate. As a result, the 36% of RPU customers who currently do not use water outside the lowest cost tier would see a large increase to their water bills. This translates to 20,192 RPU water customers; 3,355 are located in Ward 1, 2,503 are located in Ward 2, 3,683 are located in Ward 3, 694 are located in Ward 4, 3,966 are located in Ward 5, 2,887 are located in Ward 6, and 3,104 are located in Ward 7. Low-income and fixed income customers would be the most significantly impacted. They would now be incurring the costs associated with peak system infrastructure requirements even though they are most typically not

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	the customers causing the need. The residential customers who will benefit from this approach will be high water use customers.