



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: JANUARY 13, 2020

ITEM NO: 11

SUBJECT: ELECTRIC AND WATER UTILITY RATE PLAN UPDATE FOR FISCAL YEAR 2018-19

ISSUE:

Receive the annual electric and water utility rate plan update for fiscal year 2018-23.

RECOMMENDATION:

That the Board of Public Utilities receive the annual electric and water utility rate plan update for fiscal year 2018-19.

BACKGROUND:

On May 14, 2018, the Board of Public Utilities (Board) conducted a public hearing to receive public input related to the water and electric utility five-year rate proposal. With all members present, the Board unanimously recommended that the City Council approve the 2018-2023 Electric and Water Rules and Rates.

On May 22, 2018, the City Council approved the proposed utility rates with water rate increases effective July 1, 2018 and electric rate increases effective January 1, 2019. Additionally, the City Council directed staff to provide an annual review of the adopted rates.

The Riverside Public Utilities Department (RPU) is responsible for the management of the City-owned water and electric utilities. It provides high quality and reliable services to over 110,000 metered electric customers and approximately 66,000 metered water customers throughout the City of Riverside. The electric and water utility funds are self-supporting enterprise funds that provide services for a fee. The Board has the authority to adopt and the City Council has the authority to approve rate changes when necessary to ensure the continued recovery of costs for services and to secure reinvestment into the system infrastructure for long-term sustainability. The annual rate plan update outlines information about the operating performance, financial condition, and capital improvement projects of RPU for the fiscal year (FY) 2018-19.

DISCUSSION:

During FY 2018-19, RPU implemented the first year of the water rate plan on July 1, 2018, and the first year of the electric rate plan on January 1, 2019. The five-year annual rate increases are listed below. The annual rate plan update includes one-year of water rate increases and the first 6-months of electric rate increases.

Years 1-5	
Electric	January 2019 2.95%
	January 2020 3.0%
	January 2021 3.0%
	January 2022 3.0%
	January 2023 3.0%
Water	July 2018 4.50%
	July 2019 5.75%
	July 2020 5.75%
	July 2021 5.75%
	July 2022 6.50%

Based on system average, rate increases vary by customer class and consumption levels.

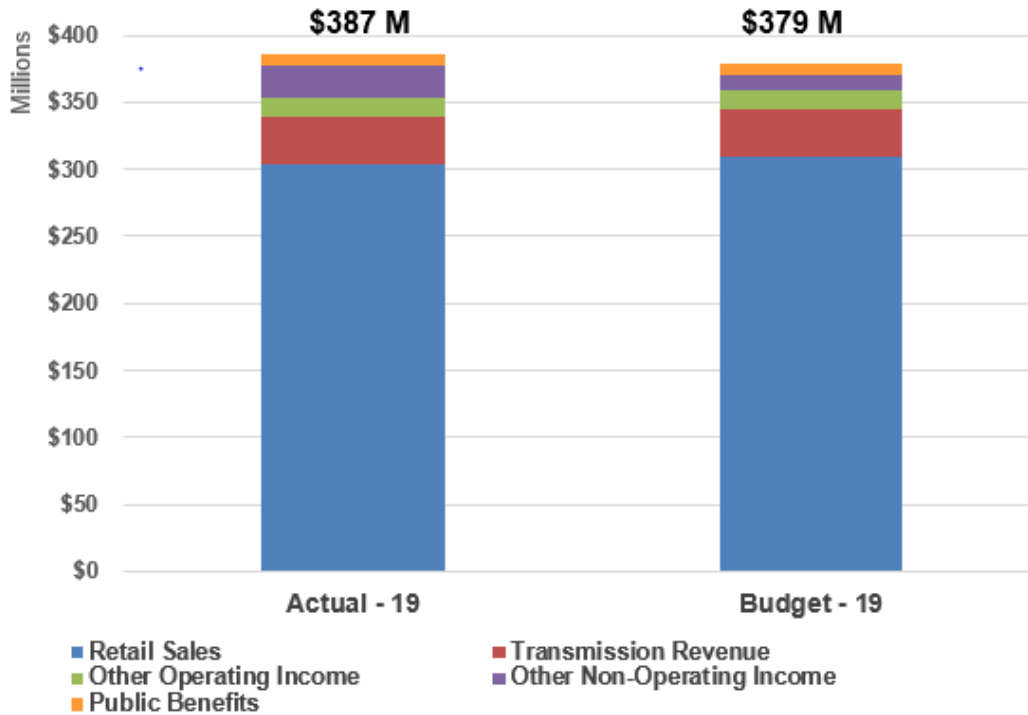
ELECTRIC FUND

The Electric Utility maintains and operates 99 circuit miles of transmission lines, 1,348 circuit miles of distribution lines, 14 substations, and three (3) generating plants totaling 270 megawatts. Charges for service through rates are the primary source of funding for operations and funds a portion of the capital improvement program. The capital improvement program is funded by a combination of bond proceeds, rates, reserves, and developer fees.

Electric rates for customers are comprised of a fixed monthly customer charge, a reliability charge based on the customers' energy consumed or service plan size, a network access charge, a commercial demand charge, and energy charges that are based on the quantity of energy consumed by the user. For FY 2018-19, the average residential customer experienced a \$3.02 increase in their monthly bill with electric rate increases effective January 1, 2019. The overall performance of the electric fund for FY 2018-19 is presented in the table below:

Electric Fund	FY 2018-19 Budget	FY 2018-19 Actuals	Difference
Revenues	\$379,371,000	\$386,690,000	\$7,319,000
Expenditures	\$391,277,000	\$352,308,000	\$(38,969,000)

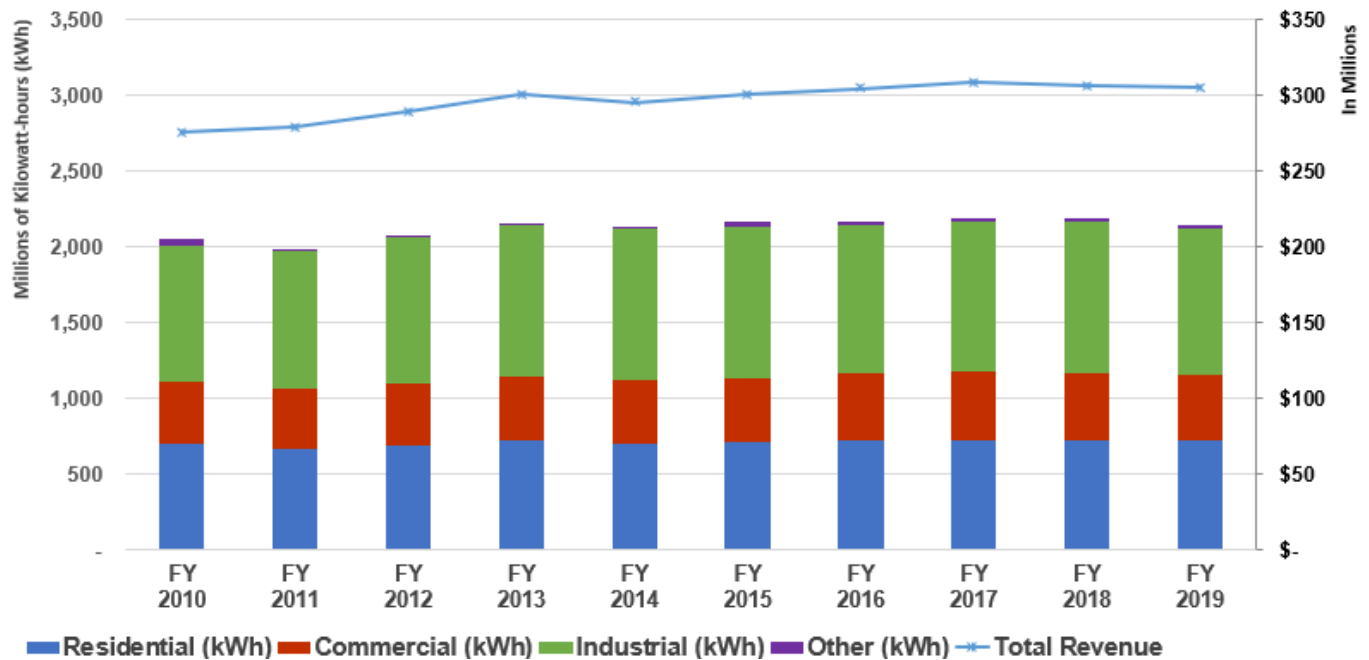
Electric Utility Revenues:



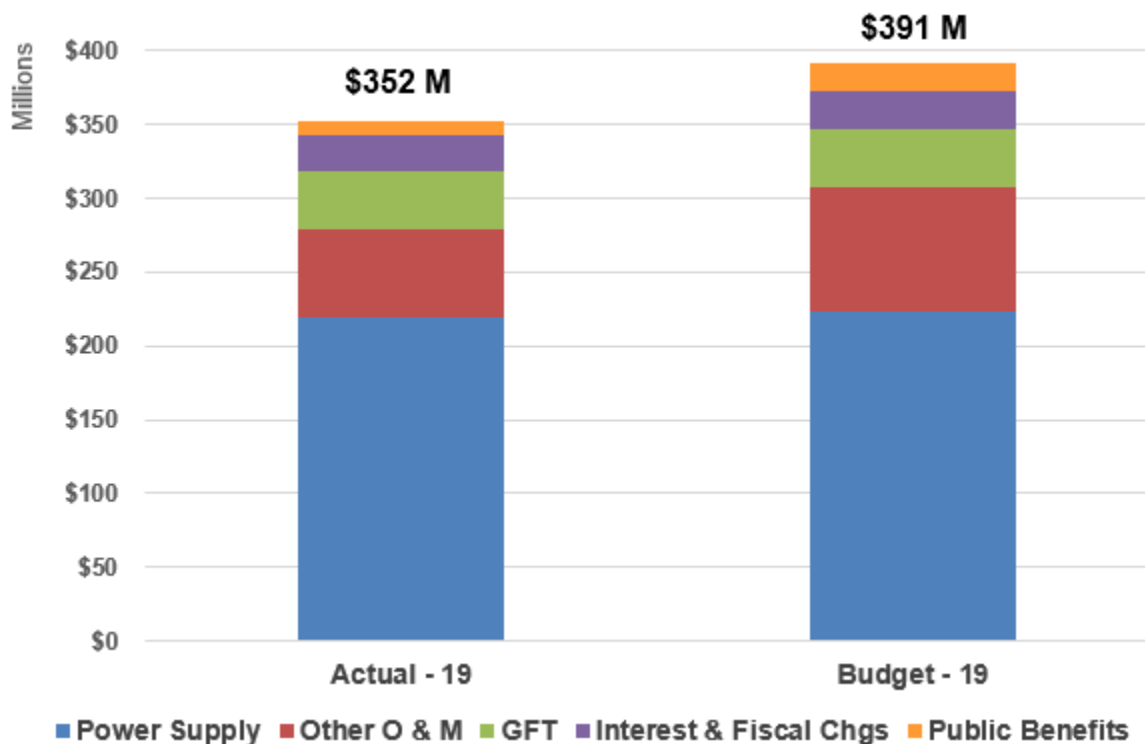
Total electric revenues of \$387 million, including non-operating income, were higher than budget by \$8 million or 2.1% but slightly lower than prior year actuals of \$394 million.

1. Retail sales, net of uncollectibles/recovery, which represent 79% of revenues, totaled \$304 million which was lower than budget by \$5.1 million (1.6%) primarily due to reduced consumption at 1.3% lower than projected. Retail sales include the first six months of the first year of the rate plan effective January 1, 2019.
2. Transmission revenues of \$35.7 million were lower than budget by \$0.5 million (1.4%) due to a slight decrease in the load requirements as a result of a decrease in consumption.
3. Other operating income revenues of \$13.5 million were slightly lower than budget.
4. Other non-operating income revenues totaled \$24.0 million, was higher than budget by \$13.1 million due to an unanticipated increase in capital projects funded by developers and interest income.

The table below provides a historical view of energy consumption, which illustrates a 2.1% decrease in energy consumption for FY 2018-19 from the previous year. Weather significantly impacts retail sales for the utility. Riverside experienced cooler temperatures in FY 2018-19 compared to FY 2017-18 which contributed to the lower energy consumption in FY 2018-19. The reduction in FY 2018-19 retail sales from prior year of 0.5% is less than the decrease in usage primarily due to the impacts of the first six (6) months of the first year of the rate plan effective January 1, 2019.



Electric Utility Expenses:



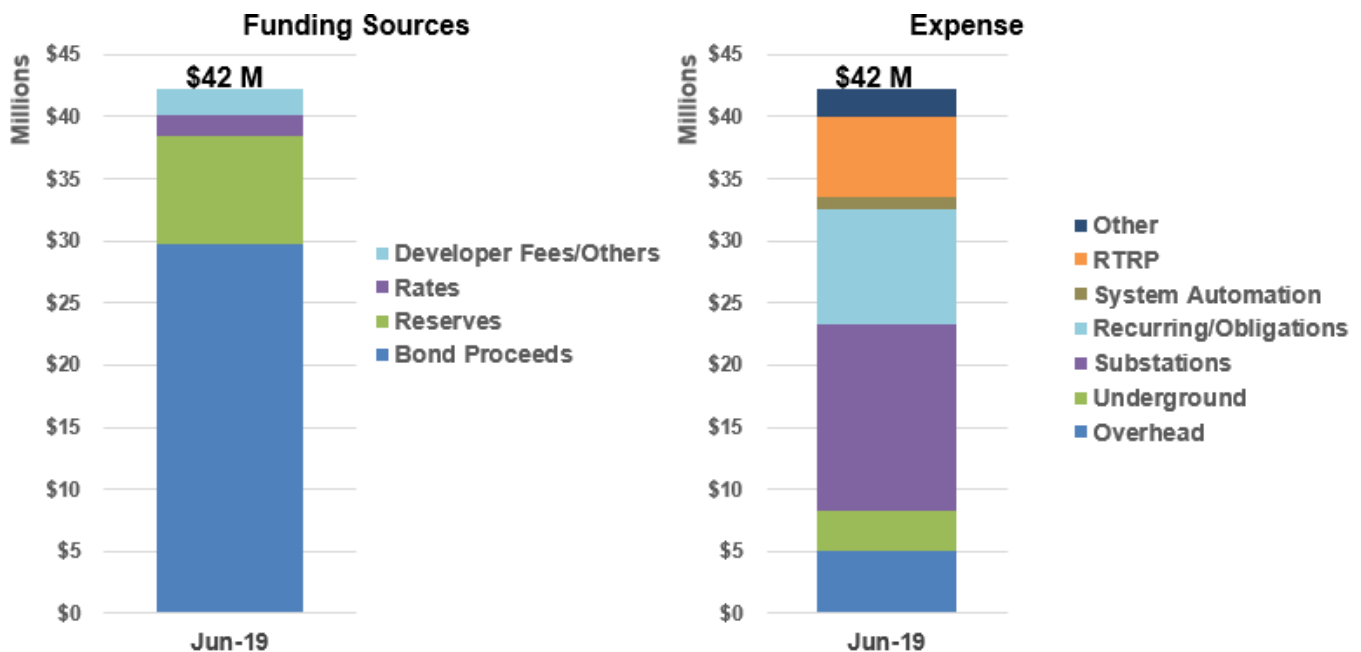
Total electric expenses, excluding depreciation, totaling \$352 million, were lower than budget by \$39 million or 10%.

1. Power Supply costs of \$219.7 million were \$3.3 million (1.5%) lower than budget due to a supplemental appropriation of \$7 million due to increase in natural gas prices and power costs offset by unanticipated increase in maintenance costs for Southern Transmission System.
2. Other operating and maintenance expenses of \$58.7 million were \$25.4 million (30.2%) lower than budget primarily due to savings in professional services and other general operating expenses.

3. Pursuant to provisions in the City Charter, the Electric Utility transferred to the General Fund \$39.9 million for FY 2018-19 to help provide needed public services to residents, which was in line with budget.

Electric Utility Capital Improvement Projects:

Capital projects are budgeted on a program basis with many active projects in progress at the same time, ranging from less than \$50,000 in size to multi-million dollars in major projects. Major capital projects take anywhere from several months to multiple years (depending on magnitude) to complete. Frequently, the total budget will not be fully spent for any given year due to the timing of projects and extenuating circumstances that may cause a project to be delayed.



As such, electric projects completed during FY 2018-19 include:

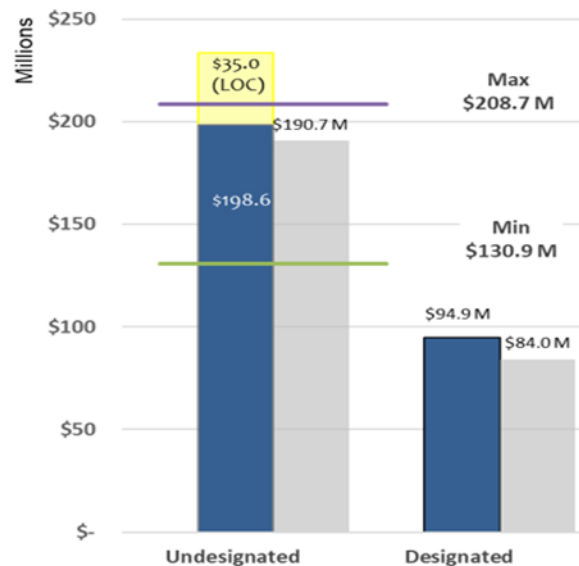
- Completion of the Magnolia Substation Retirement and Demolition Project, and 4kV to 12kV Conversion Project. Total was \$8.5 million.
- Completion of the Transformer Replacement at Freeman and Mountain View Substations Projects. Total was \$4.2M.
- Completion of the Hunter Substation Land Acquisition and Preparation for Substation Replacement project starting in 2018 with acquisition of 1.38 acres of additional land adjacent to the site. Total was \$1.1 million.
- Completion of the Cable Replacement-Canyon Crest Areas 1F (Phase 1) and Areas 2, 3 (Phase 1) Undergrounding Projects included replacement of 10,575 feet of primary cable, associated conduit and structure upgrades. Total was \$870,000.
- Completion of the California Air Resources Board (ARB) 12kV Feeders Project including constructing new underground electrical facilities starting at University Substation and heading west along Everton Road towards Iowa Avenue to the site of the new CARB Headquarters facility. Total was \$1.2 million.

Electric Utility Unrestricted Cash Reserves:

The Electric Fund Cash Reserve Policy requires an adequate amount of unrestricted and undesignated cash on hand for the following reasons:

- Maintain the short-term and long-term financial health of RPU;

- Maintain stable rates for customers and help ensure manageable rate increases;
- Fund unanticipated cost contingencies;
- Ensure funds exist for system improvements;
- Ensure cash exists for the timely payment of bills;
- Act as a significant positive credit factor in bond ratings; and
- Minimize rate increases due to:
 - Market volatility;
 - Weather impacts on demand;
 - Emergencies (such as natural disasters, and;
 - Regulatory changes



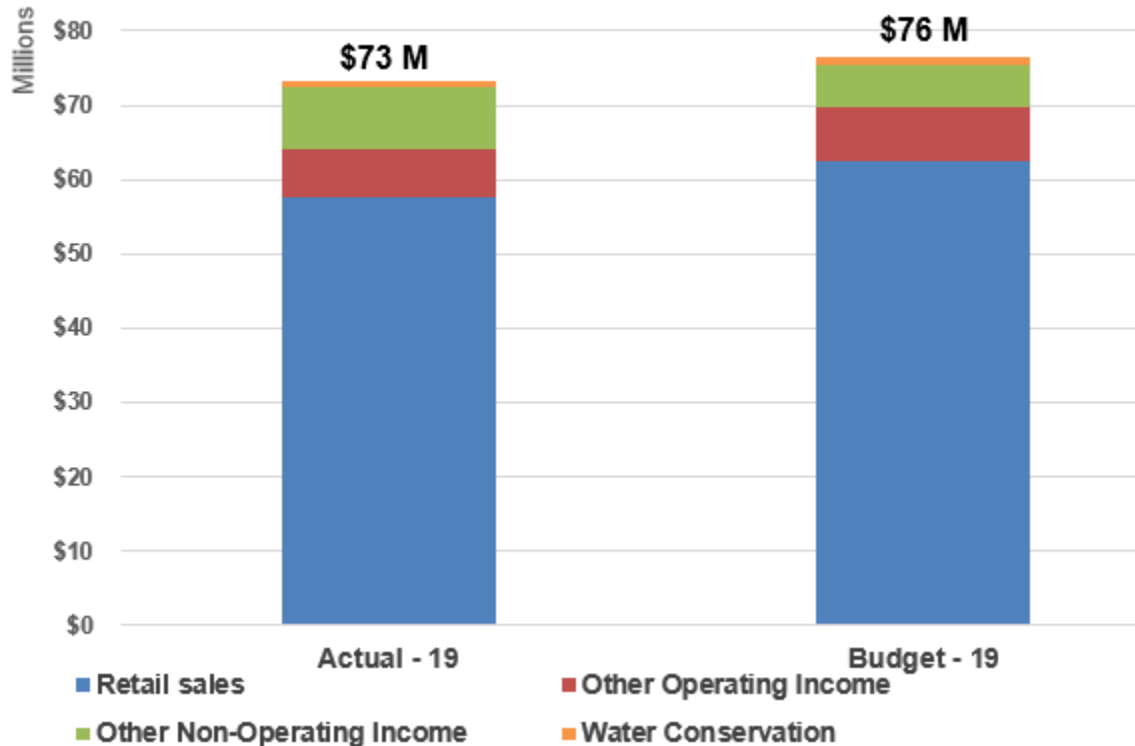
As of June 30, 2019, the Electric Utility balances were \$94.9 million for unrestricted, designated reserves, \$198.6 million for unrestricted, undesignated reserves, and \$35 million line of credit (LOC). The LOC provides flexibility and operating liquidity similar to cash reserves. The Electric Fund's unrestricted, undesignated reserve balance at fiscal year-end met the minimum and maximum guidelines as set forth in the policy. Designated reserves are considered unrestricted assets and represent a portion of unrestricted reserves that meet specific purposes set aside by the Board and City Council. The unrestricted, designated reserve balance includes reserves for Customer Deposits, Additional Decommissioning Liability, Electric Reliability, Capital Repair and Replacement, the Mission Square Improvement, and Dark Fiber. The unrestricted, undesignated reserves have not been designated for a specific purpose and may be used for any lawful purpose including operating and maintenance expenses, debt service, emergency capital and system improvements capital as directed in the reserve policy.

WATER FUND

The Water Utility maintains and operates 1,005 miles of pipeline, 56 wells, 16 active reservoirs, and 6 treatment plants. Charges for service through rates are the primary source of funding for operations and is also funds a portion of the capital improvement program. The capital improvement program is funded by a combination of bond proceeds, rates, reserves, and developer fees.

Water rates for customers are comprised of a fixed monthly customer charge based on the size of the meter and a commodity charge that is based on the quantity of water consumed by the user. For FY 2018-19, the average residential customer experienced a \$3.21 increase in their monthly bill, or \$38.52 for the year. The overall performance of the water fund for FY 2018-19 is presented in the table below:

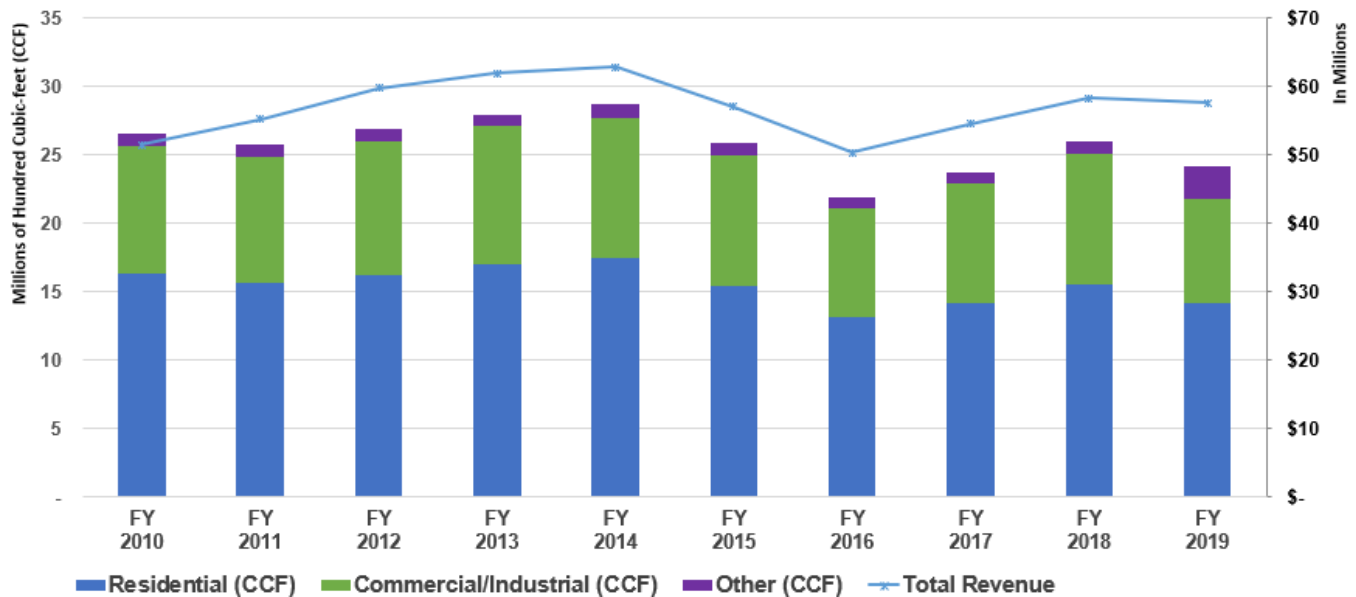
Water Fund	FY 2018-19 Budget	FY 2018-19 Actuals	Difference
Revenues	\$76,434,000	\$73,298,000	\$(3,136,000)
Expenditures	\$66,205,000	\$61,961,000	\$(4,244,000)

Water Utility Revenues:

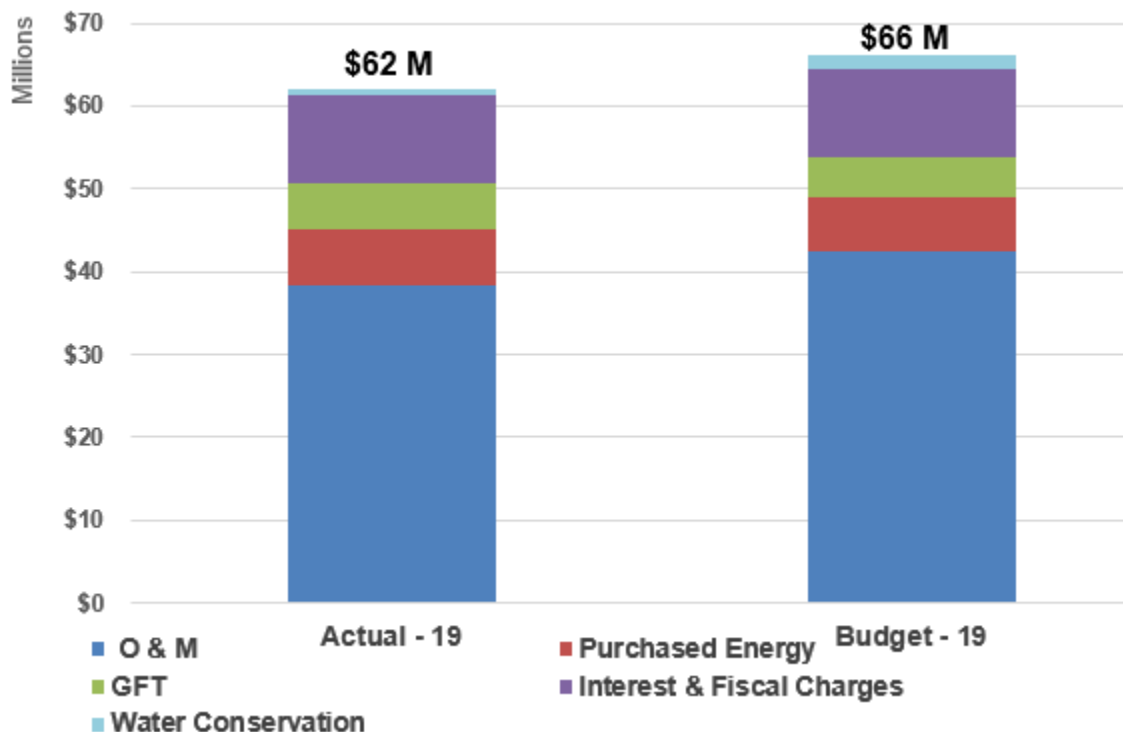
Total water revenues, including non-operating, totaling \$73 million overall, were lower than budget by \$3 million or 3.9%.

1. Retail sales, net of uncollectibles/recovery, which represent 79% of revenues, totaled \$57.6 million which were \$4.7 million (7.5%) lower than budget due to reduced consumption resulting from significant rainfall.
2. Other non-operating revenues of \$8.2 million were \$2.4 million (41.4%) higher than budget due to an increase interest income and completion of water system expansion project for Riverwalk Vista Improvement project.

Weather significantly impacts retail sales for the utility and during the period of October 2018 through March 2019, Riverside experienced a significant amount of rainfall that reduced the overall demand for water. The table below provides a historical view of water sales, which illustrates a 7.2% decrease in water usage for FY 2018-19 from the previous year. The reduction in retail sales from prior year of 1.1% is less than the decrease in usage primarily due to the impacts of the first year of the rate plan effective July 1, 2018.



Water Utility Expenses:

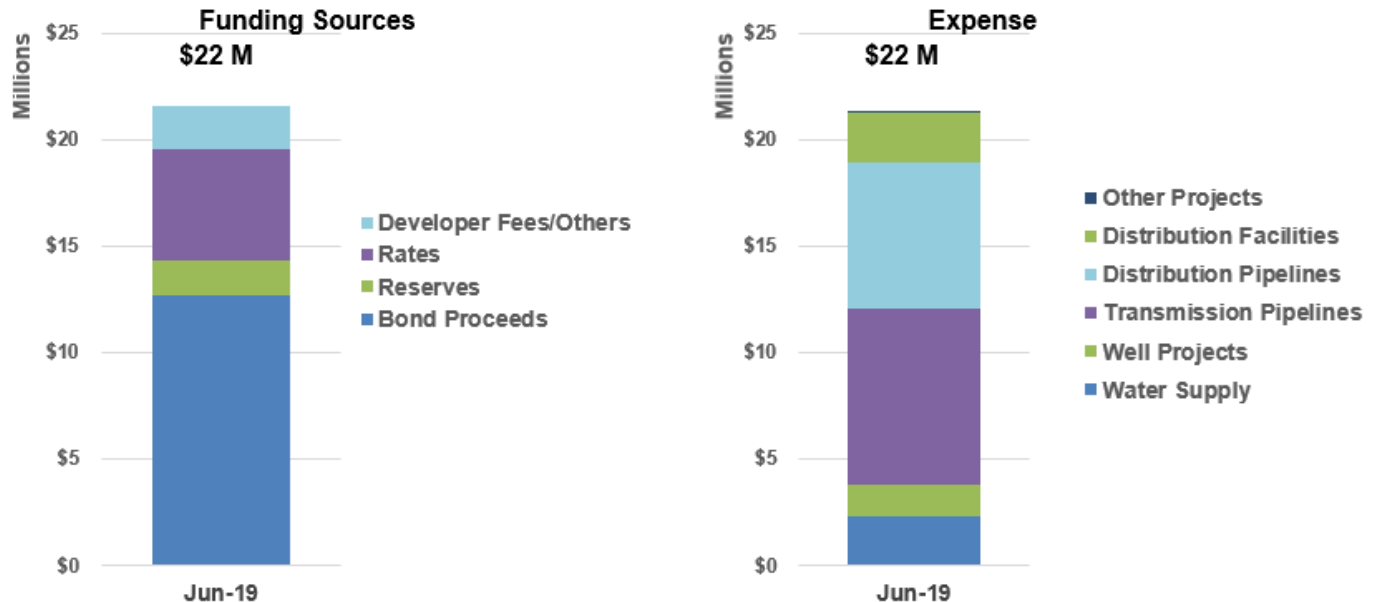


Total water expenses, excluding depreciation, totaling \$62 million, were lower than budget by \$4 million or 6.1%.

- 1) Operations and maintenance expenses of \$38.5 million were lower than budget by \$3.9 million (9.2%) due to actual progress of current projects to be completed in fiscal year 2019 and savings in personnel costs and other general operating expenses.
- 2) Pursuant to provisions in the City Charter, the Water Utility transferred to the General Fund \$6.6 million for FY 2018-19 to help provide needed public services to residents, which was in line with budget.

Water Utility Capital Improvement Projects:

Capital projects are budgeted on a program basis with many active projects in progress at the same time, ranging from less than \$50,000 in size to multi-million dollars in major projects. Major capital projects take anywhere from several months to multiple years (depending on magnitude) to complete. Frequently, the total budget will not be fully spent for any given year due to the timing of projects and extenuating circumstances that may cause a project to be delayed.



As such, water projects completed during FY 2018-19 include:

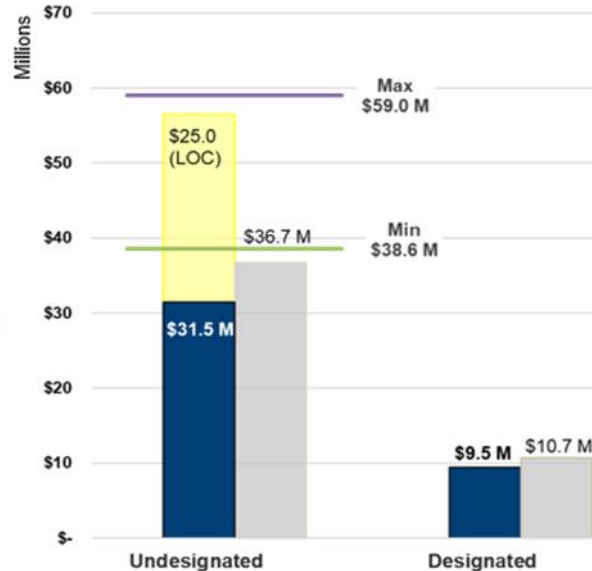
- Completion of the Magnolia Techite Pipeline Replacement and Pressure Reducing Station Replacement Project. Total was \$7.9 million.
- Completion of the Groundwater Well Rehabilitation Project. Total was \$1.5 million.
- Completion of the Iowa Avenue Transmission Main Replacement Project. Project total was \$1.8 million.
- Completion of the New Conservation Water from Seven Oaks Dam and Enhanced Recharge Project Phase 1A. Total RPU project costs were \$4.6 million.
- Completed Service Laterals and Meter Replacement Project. Total was \$4.9 million.
 - Proactive replacement of 1,198 service lateral replacements, 75 fire hydrant replacements and 13 valve replacements.
 - Replaced 2,316 small meters, 44 large meters, and performed 412 large meter calibrations to ensure accurate metering of water consumption.

Water Utility Unrestricted Cash Reserves:

The Water Fund Cash Reserve Policy requires an adequate amount of unrestricted and undesignated cash on hand for the following reasons:

- Maintain the short-term and long-term financial health of RPU;
- Maintain stable rates for customers and help ensure manageable rate increases;
- Fund unanticipated cost contingencies;
- Ensure funds exist for system improvements;
- Ensure cash exists for the timely payment of bills;
- Act as a significant positive credit factor in bond ratings; and
- Minimize rate increases due to:
 - Market volatility;

- Weather impacts on demand;
- Emergencies such as natural disasters, and;
- Regulatory changes.



As of June 30, 2019, the Water Utility balances were \$9.5 million for unrestricted, designated reserves, \$31.5 million for unrestricted, undesignated reserves, and \$25 million line of credit (LOC). Water Fund's unrestricted, undesignated reserve balance combined with the line of credit in compliance with RPU Cash Reserve Policy, at June 30, 2019, is above target minimum which is consistent with projections provided during the biennial budget and rate plan proposal processes. The LOC provides flexibility and operating liquidity similar to cash reserve allowing the Water Fund to maintain compliance with RPU Cash Reserve Policy. Designated reserves are considered unrestricted assets and represent a portion of unrestricted reserves that meet specific purposes set aside by the Board and City Council. The unrestricted, designated reserve balance includes reserves for Recycled Water, Property, Customer Deposits and Capital Repair/Replacement. The unrestricted, undesignated reserves have not been designated for a specific purpose and may be used for any lawful purpose including operating and maintenance expenses, debt service, emergency capital, and system improvements capital as directed in the reserve policy.

FISCAL IMPACT:

There is no fiscal impact associated with receiving this annual electric and water utility rate plan update.

Prepared by: Brian Seinturier, Utilities Fiscal Manager
 Approved by: Todd M. Corbin, Utilities General Manager
 Approved by: Al Zelinka, City Manager
 Approved as to form: Gary G. Geuss, City Attorney

Certifies availability of funds: Brian Seinturier, Utilities Fiscal Manager

Attachment: Presentation