

RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: APRIL 19, 2021

SUBJECT: IMPLEMENTATION OF THE THIRD YEAR OF THE ELECTRIC RATE PLAN

ISSUES:

Consider the impacts of a recommendation to City Council to delay the implementation of the third year of the electric rate plan, originally approved for January 1, 2021, and request additional discussion for the impacts of the reduced electric revenue for Fiscal Year 2020/21.

RECOMMENDATIONS:

That the Board of Public Utilities:

1. Receive a report on utility year-to-date revenues and customer delinquency rates;
2. Consider the impacts of a recommendation to City Council to delay the implementation of the Third Year of the Electric Rate Plan from January 1, 2021 to July 1, 2021, with an estimated electric fund revenue reduction of \$4.4M, to meet Fiscal Year 2021/2022 budget assumptions; and
3. Direct staff to return to the Board with additional information and discussion regarding potential mitigation measures to address the estimated electric fund revenue reduction for Fiscal Year 2020/2021 and further delays impacting Fiscal Year 2021/2022 budget funding.

BACKGROUND:

The Riverside Public Utilities Department (RPU) is responsible for the management of the City-owned water and electric utilities. RPU provides high quality and reliable services to over 111,000 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.

On May 14, 2018, the 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 Board and City Council received the first annual electric and water utility rate plan update for Fiscal Year (FY) 2018-19 on January 13, 2020 and February 11, 2020. The annual rate plan update outlined information about the operating performance, financial condition, and capital improvement projects of RPU for the FY 2018-19.

On December 22, 2020, the Board of Public Utilities (Board), with three members absent, unanimously voted to receive the annual electric and water utility rate plan update for the results of Fiscal Year 2019-20 and recommended the City Council direct the City Manager to delay the implementation of the third year of the electric rate plan until March 31, 2021.

On January 5, 2021, the City Council, unanimously voted to receive the annual electric and water utility rate plan update for the results of Fiscal Year 2019-20 and directed the City Manager to delay the implementation of the third year of the electric rate plan until March 31, 2021. During this meeting, City Council members directed staff to return with a discussion on utility accounts delinquency information and the implementation of the third year of the electric rate plan in March 2021.

On March 23, 2021, City Council voted with six ayes and one no, to receive and file a report on utility customer account delinquencies; and refer to the Board of Public Utilities for recommendation on the implementation of a restructured three percent increase of the electric rate plan, per Charter Section 1202(e).

DISCUSSION:

Electric Fund

The Electric Utility maintains and operates 99 circuit miles of transmission lines, 1,351 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.

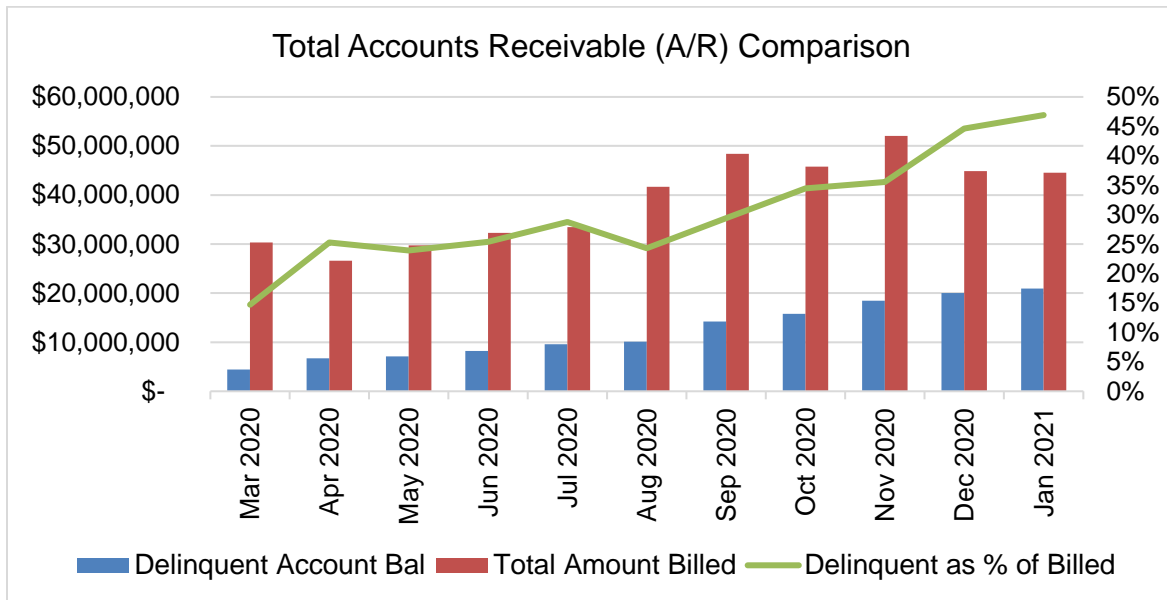
Electric rates for customers are comprised of a fixed monthly customer charge, a reliability charge based on the customers' energy consumed or service plan size, a network access charge, a commercial demand charge, and energy charges that are based on the quantity of energy consumed by the user.

Accounts Receivable and Delinquencies

Since the COVID-19 Local Emergency Declaration, the City has experienced significant increases in utility customer accounts receivable. This includes increases in delinquent account balances and the number of utility accounts that have become delinquent.

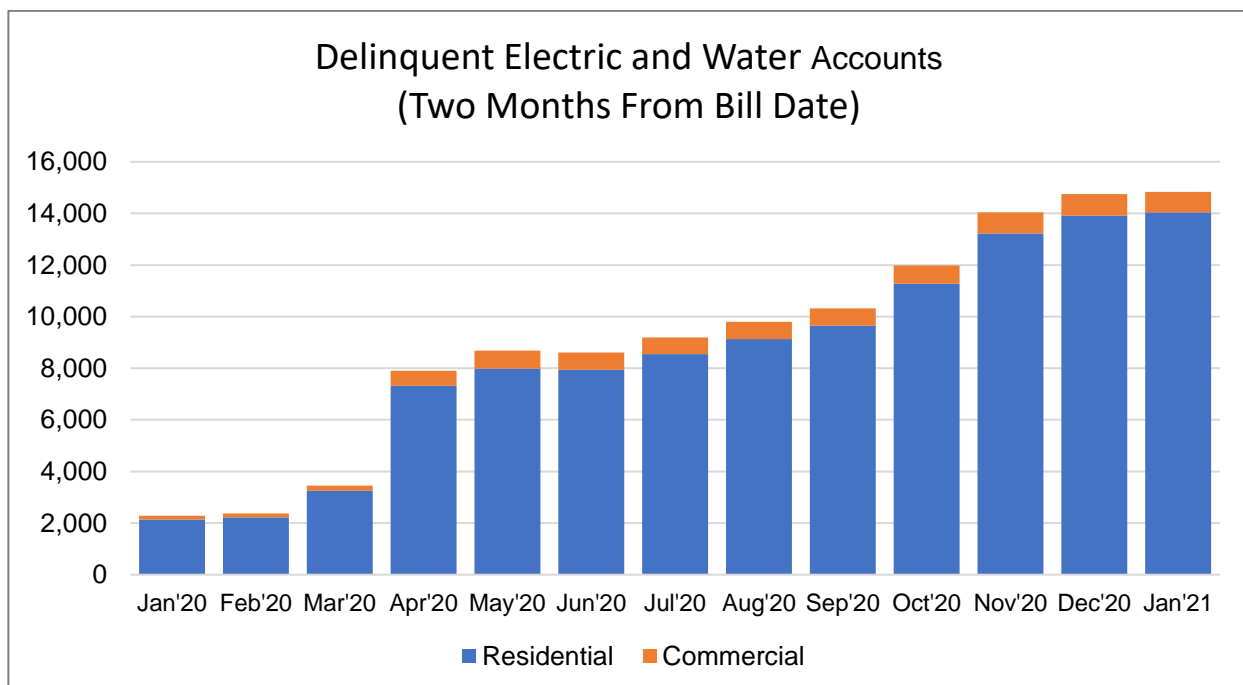
The chart below was presented to City Council on March 23, 2021 and includes monthly utility customer accounts receivable, delinquent account balances (those that are unpaid as of 30 days or more from the bill date), the total amounts billed, and the percentage of delinquent account

balances as compared to the overall billings. Accounts receivable for all services including electric, water, sewer, and refuse have increased by 47% or \$14.3 million from March 2020 to January 2021. During the same period, delinquent accounts receivable has increased 369% or \$16.4 million.



Notes: 1) Updated through January 26, 2021 for electric, water, sewer and refuse.
 2) Delinquent % of A/R is the delinquent balance divided by the total accounts receivable.

The chart below includes the number of electric and water utility accounts which have unpaid balances that are 60 days or more from the billing date. Delinquent accounts have increased by over 551% to 14,835 customers during the COVID-19 Local Emergency. The number of delinquent residential customers has increased by 556% to 14,045 customers while the delinquent commercial customers has increased by 464% to 790 customers.



Notes: 1) January 2021 customer count as of 1/26/21
 2) Includes active delinquent accounts.

Assistance Measure and Programs

During the COVID-19 Local Emergency, the City has taken measures and adopted programs to assist customers that include:

1. Suspended discontinuance of service for nonpayment of utility services
2. Emergency Recovery Assistance Program (ERAP) > \$1.8M awarded
3. SHARE
4. Small Business Deposit Credit Program (ended March 31, 2021)
5. Emergency Rental Assistance Program

Rate Plan

RPU implemented the second year of the water rate plan on July 1, 2019, and the second year of the electric rate plan on January 1, 2020. The five-year annual rate plan is listed on the chart below.

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.

In the second year of the electric plan, effective January 1, 2020, the average residential customer experienced an additional monthly cost of \$3.08 for electric service. In the third year of the electric plan, not yet implemented, the average residential customer is estimated to experience an additional \$3.22 per month for electric service.

Current Electric Rate Implementation

On March 23, 2021, City Council voted with six ayes and one no, to receive and file a report on utility customer account delinquencies; and refer to the Board of Public Utilities for recommendation on the implementation of a restructured three percent increase of the electric rate plan, per Charter Section 1202(e). Different options were discussed as an alternative to the annual three percent increase, including consideration of a two percent increase now and a four percent increase later.

The third year of the electric rate plan was adopted and approved after an extensive public hearing and approval process. If the Board and City Council wish to change the amount of the rate increase for the third year of the electric rate plan, a new rate for the third year of the plan will need to be adopted. Adoption of a new rate would require a public hearing and approval by both

the Board and City Council. A delay of the currently adopted and approved rate is not the adoption of a new rate and does not require Board and Council approval, nor is a public hearing required. As an alternative to restructuring the annual three percent increase, staff is recommending a discussion by the Board to further delay the implementation date for the third year of the electric rate plan from January 1, 2021 to July 1, 2021, and additional review of mitigation measures to address the reduction to the electric fund revenues caused by the delay of the approved scheduled rate increase. Specifically, staff is recommending that the Board discuss the impacts of delaying the implementation date for the third year of the electric rate plan from January 1, 2021 to July 1, 2021, and direct staff to present a report to the Board, on or before July 12, 2021, as to appropriate mitigation measures for approval by the Board and a recommended action on the rate plan to forward to City Council.

Potential Mitigation

The fiscal impact of delaying the third year of the electric rate plan from January 1, 2021 to June 30, 2021, is estimated at \$4.4M revenue reduction for the electric fund. The attached presentation includes the current cash reserve balance for the electric fund including the potential impacts of using the reserves to balance the revenue loss. Also included is the electric infrastructure projects that were approved to be partially funded by the five-year rate plan. Staff anticipate additional Board member inquiries for additional information to continue the discussion and policy direction to address the electric fund revenue impacts from the delay to the third year of the rate plan.

FISCAL IMPACT:

The fiscal impact of delaying the implementation of the third year of the electric rate plan until March 31, 2021 is an estimated \$2.1 million reduction in utility revenues in FY 2020/21, an estimated \$114,000 reduction in General Fund Utility Tax Revenue in FY 2020/21, and an estimated \$241,500 reduction in the General Fund Transfer in FY 2021/22.

A further delay in the implementation of the third year of the electric rate plan through June 30, 2021, with an effective date of July 1, 2021, is an estimated \$2.3 million additional reduction in utility revenues in FY 2020/21, an estimated \$125,000 additional reduction in General Fund Utility Tax Revenue in FY 2020/21, and an estimated \$266,000 additional reduction in the General Fund Transfer in FY 2021/22. Further delays also reduce Electric Fund Reserves greater than projected in the approved rate plan.

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Approved as to form:	Kristi J. Smith, Interim City Attorney

Certifies availability of funds:	Edward Enriquez, Chief Financial Officer/City Treasurer
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Attachment:	Presentation
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