

RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: AUGUST 28, 2023

SUBJECT: PUBLIC HEARING - ELECTRIC UTILITY FIVE-YEAR RATE PLAN PROPOSAL AND CHANGES TO THE SHARING HOUSEHOLDS ASSIST RIVERSIDE'S ENERGY PROGRAM AND ENERGY SAVING ASSISTANCE PROGRAM

ISSUES:

Consideration of an electric utility five-year rate plan proposal and increases to the low-income utility bill assistance for residential customers called Sharing Households Assist Riverside's Energy (SHARE).

RECOMMENDATIONS:

That the Board of Public Utilities:

1. Conduct a public hearing to receive public input related to the electric utility five-year rate plan proposal;
2. Adopt a resolution of the electric utility five-year rate plan proposal, establishing the electric utility five-year rate proposal, as further described in the resolution;
3. Recommend the City Council conduct a public hearing to receive input related to the electric utility five-year rate plan proposal;
4. Recommend the City Council adopt a resolution approving the electric utility five-year rate plan proposal, as further described in the resolution; and
5. Recommend the City Council approve changes to the Sharing Households Assist Riverside Energy Program.

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LEGISLATIVE HISTORY:

The electric utility is a self-supporting enterprise fund that provides services for a fee. Charges for service through rates are the primary source of funding for operations and also fund a portion of the capital improvement program. The capital improvement program is funded by a combination of bond proceeds, rates, reserves, and developer fees.

City Charter section 1202(e) provides for the process for the adoption of utility rates. The Board has the authority to establish rate changes, which must then be approved by the City Council, when necessary to ensure the continued recovery of costs for services and to secure reinvestment into the system infrastructure for long-term sustainability.

Proposition 26 (Prop 26), approved in 2010, amended Article XIII C (Voter Approval for Local Tax Levies) to the California Constitution. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax; that the amount is no more than necessary to cover the reasonable costs of the governmental activity; and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. This "fair and reasonable relationship" standard is supported by the Cost of Service approach.

State law provides that, prior to adoption of increases to electric rates, the City must provide notice by publication, such as the Press Enterprise, once each week for two weeks, with the first publication at least 15 days prior to the noticed public hearing. Electric rates are not subject to the procedural requirements of Proposition 218. The Board of Public Utilities public hearing was published in the Press Enterprise on Thursday, August 10, 2023, and Thursday, August 17, 2023. In anticipation of the City Council public hearing on September 19, 2023, public hearing notices were mailed to electric utility ratepayers on Thursday, July 27, 2023, and will be published twice in the Press Enterprise prior to the public hearing.

BACKGROUND:

Conceptual Approval of Five-Year Rate Plan

On June 12, 2023, the Board received information on the establishment of a five-year rate plan for the Electric utility, conceptually approved the Electric utility five-year rate plan proposal and recommended that City Council direct staff to prepare all documents necessary for a public hearing to be held at City Council on September 5, 2023, upon approval of the City Council with new rates effective January 1, 2024. On June 27, 2023, the City Council received information on the establishment of a five-year rate plan for the electric utility, conceptually approved the electric utility five-year rate plan proposal and directed staff to prepare all documents necessary for a public hearing to be held at City Council on September 19, 2023, with new rates effective January 1, 2024.

Rate trend studies preceded the proposed five-year rate plan.

Board of Public Utilities Actions Prior to Proposed Rate Plan

On August 8, 2022, the Board of Public Utilities received an update and provided feedback on Riverside Public Utilities Electric and Water Rate Trends Studies.

On May 16, 2022, the Board of Public Utilities Customer Relations/Finance Committee, with three

members present and one member absent, unanimously received the Electric Rate Trends Study update and provided feedback that included considering:

1. The timing of the advanced metering infrastructure (AMI) implementation when reviewing a transition to entirely time of use rates for the domestic and small and medium commercial classes;
2. Battery storage programs; and
3. Other factors along with the timing of rate adjustments being effective after the current five-year rate plan on January 1, 2024.

On September 27, 2021, the Board of Public Utilities approved the agreement with NewGen Strategies and Solutions, LLC. (NewGen) to complete an electric utility cost of service analysis (COSA) and rate design project for financial planning purposes. The final year of the current electric utility five-year rate plan rate adjustment is effective January 1, 2023. After completing the draft Riverside Public Utilities (RPU) Self-Generation Program Review, NewGen and RPU staff began the COSA and Electric Rate Trends Study phases of the project.

What is a rate trend study? The purpose of the Electric and Water Rate Trends Studies (Studies) phase within the Electric and Water COSA and Rate Design Projects was to evaluate and analyze different rate structures in the electric and water utility industries and how they could influence, impact, or apply to RPU currently and in the future. The different rate structures and industry concepts researched include, but are not limited to, emerging technologies and their future implications, electricity and water pricing, customer classification, and new customer choices. The Electric Rate Trends Study included current rate offerings from investor-owned utilities (IOUs) and various municipal utilities like RPU. The use of multiple IOUs and municipal utilities was intended to best inform RPU of the different rate trends and rate structures in California and in the broader United States.

Goal of a rate trend study. The goal of these Studies was to help RPU develop rates that are cost of service based, a reflection of industry best practices, and meet the City's Strategic Goals and Cross Cutting Threads. With the COSA results and Study information, RPU was prepared to discuss and design electric and water rates for the future of each utility.

Elements of a rate trend study. The Electric Rate Trends Study includes the following sections:

- Section 1 **Introduction** – Purpose of the Electric Rate Trends Study within the Electric Cost of Service Analysis and Rate Design Project.
- Section 2 **General Rate Making Principles** - An overview of general rate making principles including RPU's rate making principles and alignment with the City Council's Envision Riverside 2025 Strategic Plan Cross-Cutting Thread themes.
- Section 3 **Electric Rate Alternatives** – A discussion of various electric rate alternatives based on recent and emerging trends in the electric utility industry. The section highlights various summary rate matrices showing the rate structures of the utilities researched; the advantages and disadvantages; rankings of the alternative rates; and short-, mid-, and long-term considerations.
- Section 4 **General Recommendations** - Summary of general recommendations.

- Section 5 **General Implementation Considerations** - Discusses implementation considerations such as customer acceptance, usage patterns, technology, and costs and benefits.

The Electric Rate Trends Study includes general recommendations to:

1. Continue current practices, monitoring and updating its rate structure as necessary based on the COSA, regarding seasonal rates, economic development rates, stand-by charge, and time of use (TOU) rates.
2. Continue current practices regarding domestic electric vehicle (EV) charging rates and implement EV charging rates for commercial customers and public charging stations while also monitoring other utilities’ practices and the applicable regulations and mandates of local, state, and federal regulatory bodies.
3. Continue using fixed cost recovery mechanisms like reliability charges and network access charges. RPU should continue analysis of these cost recovery mechanisms to ensure they are in line with COSA results.
4. Continue the plan to close the current Net Energy Metering program and to implement the proposed Self-Generation program and continue to offer the feed-in tariff while also analyzing customer acceptance and customer knowledge of these types of rates. RPU should consider educating customers regarding the details and differences of the rates. As these rates are analyzed and modified as necessary, RPU should investigate potential aggregated Self-Generation programs consistent with potential state mandates.
5. RPU should not implement residential demand charges, real-time pricing rates, or critical peak pricing rates at this time, but should monitor other utilities’ practices with regard to these rate alternatives.
6. RPU should not implement cost adjustment such as power cost adjustment, regulatory adjustment, or decoupling at this time but should monitor exposure to fluctuations in power costs, increasing regulatory costs, and other utilities’ practices with regard to these rate alternatives. It is also recommended that RPU discontinue the current obsolete power cost adjustment factor due to the structure being out of date and not implemented for many years.
7. RPU should consider collapsing tiered rates with the goal of eventually transitioning out of tiered rates into entirely TOU rates for the domestic and small and medium commercial classes.
8. RPU should explore a small domestic rate for individually metered building units to charge customers more equitably for their costs.

Phases of a rate trend study. The Electric Cost of Service and Rate Design Project includes five overall phases. NewGen was first tasked with Phase V Self-Generation Program Review. The Self-Generation Program Review report was included with the Self-Generation Program approved by City Council on May 10, 2022. NewGen was then tasked with Phase I Cost of Service Analysis and Phase II Electric Rate Trends Study. The results of the Electric Rate Trends Study will guide the Phase III Rate Design Recommendation and supporting Phase IV Customer Impact Rate Design Model which will begin after the completion of the Phase I Cost of Service Analysis.

Electric Cost-Of-Service and Rate Design Project	Status
Phase I - Cost of Service Analysis	Complete

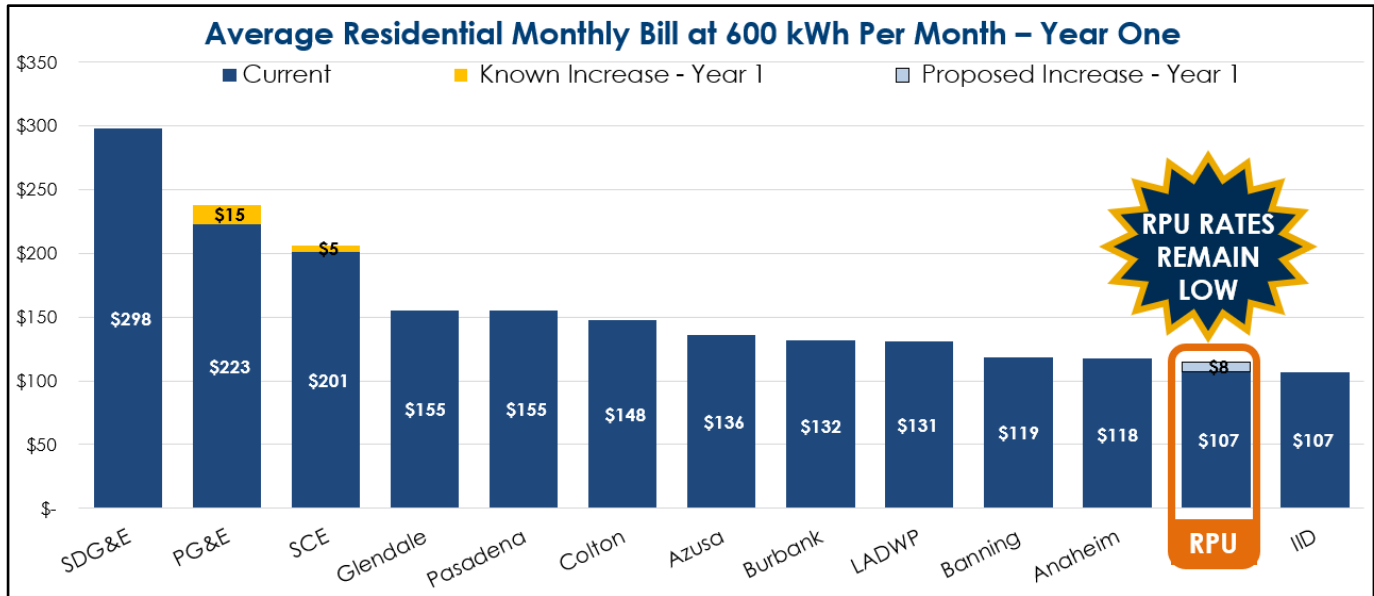
Phase II - Electric Rate Trends Study	Complete
Phase III - Rate Design Recommendation	Complete
Phase IV - Customer Impact Rate Design Model	Complete
Phase V - Self-Generation Program Review	Complete

About the Electric Utility

The Riverside Public Utilities (RPU) electric utility is one of 46 public power utilities in California and provides high quality and reliable service to over 112,000 service connections and a population of 317,847 in the City of Riverside. RPU recently recorded its highest peak demand of 648 megawatts in the summer of 2022. The electric utility maintains and operates three generation facilities with a capacity of 260 MW, 15 substations, 99 miles of transmission lines, and 1,351 miles of distribution lines. The electric utility is also a joint power participant in the Palo Verde Nuclear Generation Station, the Hoover Hydro Power Plant, and three transmission system projects. RPU also has renewable energy resources consisting of solar, wind, geothermal and biomass projects delivered to Riverside through the State bulk high-voltage electric system.

Operating and maintaining 99 miles of transmission lines, 1,351 miles of distribution lines, and 15 substations takes highly skilled and talented employees. Unlike most municipal operations, the electric grid is monitored 24 hours a day, 7 days a week.

RPU electric rates are among the lowest in Southern California. Maintaining low rates is important to our customers and helps the City of Riverside maintain a competitive advantage when compared to other utilities.



RPU’s efforts to keep rates low involve power supply costs which are the majority of the electric utility’s operating budget. The use of long-term power purchase agreements and hedging to control the impact of power cost spiking reduced the impact to RPU by \$13 million during the recent spike in power supply costs.

Even with low rates, there are many customers that require assistance. RPU established the Sharing Households Assist Riverside’s Energy (SHARE) program in 1989 to provide low-income residents with utility bill assistance. Income qualification is based on 250% of the Federal poverty income guideline and the number of people in the household.

Rates from 2009 to 2018

Electric rates were increased by 3.6%, in 2009, and 5.8% in 2010. Between 2011 and 2018 or for a period of eight consecutive years, there were no electric rate increases.

Rates from 2019 to 2023

On May 22, 2018, the City Council approved the electric utility five-year rate plan with electric rate increases effective on January 1st of each year beginning on January 1, 2019, with five-year system average annual rate increases of 3.0%. Due to COVID-19 pandemic impacts on the community, the January 1, 2021, rate increase was delayed to July 1, 2021. The final year of the electric utility five-year rate plan was effective January 1, 2023, with the final year expiring December 31, 2023.

Electric	Rate Increase
1/1/2019	2.95%
1/1/2020	3.00%
1/1/2021	3.00%
1/1/2022	3.00%
1/1/2023	3.00%

Due to COVID impacts on the community, the 1/1/2021 rate increase was delayed to 7/1/2021

Current Rate Plan Expires 12/31/2023

The current five-year electric rate plan effective January 1, 2019, through December 31, 2023 is not sufficient to meet the inflation of costs in the general economy and even greater inflationary market prices in power supplies and construction costs. RPU’s proposed electric rate increases are the result of these increased operational and capital costs and the need for additional funding to address declining reserve levels, pressures on financial metrics, and meeting fiscal policy requirements.

Challenges

RPU’s electric utility is faced with many current and future challenges including aging infrastructure, increasing natural gas and renewable power supply costs, and increased inflation of operational and capital costs.

Power supply challenges include State carbon neutrality mandates and local carbon reduction goals requiring a rapid transition to 100% clean energy, meeting increased loads and peak demands driven by transportation

Electric	Rate Increase
1/1/2009	3.60%
1/1/2010	5.80%
1/1/2011	0%
1/1/2012	0%
1/1/2013	0%
1/1/2014	0%
1/1/2015	0%
1/1/2016	0%
1/1/2017	0%
1/1/2018	0%

No Rate Increases from 2011 - 2018

and building electrification, increasing transmission access charges related to new transmission investment needed to integrate regional renewable resources, and regulatory encroachment resulting in loss of local control and creating challenges to maintain rate affordability in alignment with local needs. Costs for natural gas have doubled over the last two years due to increased liquid natural gas exports and restricted capacity on western interstate gas pipelines, which, along with supply-chain challenges delaying the development of new renewable resources, have caused costs for California Independent System Operator (CAISO) market energy to increase 60% to 80%.

Rate Proposal

RPU is proposing a five-year (fiscal years 2023/24 through 2027/28) electric utility rate plan that will result in a five-year system average annual rate increase of 5.0%.

Proposed Five-Year Electric Utility Rate Plan System Average Rate Increases	
January 1, 2024	7.0%
January 1, 2025	7.0%
January 1, 2026	7.0%
January 1, 2027	2.0%
January 1, 2028	2.0%

Rate increases and associated bill impacts will vary by customer class and consumption levels.

Proposed Five-Year Electric Rate Plan by Major Customer Class

Customer Class	Customers	Year 1 % Increase	Year 2 % Increase	Year 3 % Increase	Year 4 % Increase	Year 5 % Increase
Residential	99,718	7.1%	7.1%	7.0%	2.3%	2.4%
Commercial Flat	11,015	2.5%	2.8%	3.0%	3.0%	2.9%
Commercial Demand	988	0.0%	0.0%	0.0%	0.0%	0.0%
Industrial TOU	622	5.9%	6.6%	6.3%	4.3%	4.3%

The five-year rate plan will fund \$316 million in electric capital infrastructure and support current and future bond issuances providing \$276 million in bond proceeds to fund capital infrastructure. New electric capital infrastructure investments include funding the Hunter Substation Replacement Project. Hunter Substation serves approximately 4,700 customers and was commissioned in the early 1960's. The new substation will operate using new industry technologies to improve system reliability while meeting the existing power demands, supporting future development in the area, and maintaining power reliability.

Electric Capital Improvement Plan Investments

	Electric Capital Investments (in millions)					Total
	Adopted	-----Planning Purposes-----				
	23-24	24-25	25-26	26-27	27-28	
Overhead	\$ 8.2	\$ 9.0	\$ 10.4	\$ 10.3	\$ 11.0	\$ 48.9
Underground	14.1	14.1	16.3	15.0	15.6	75.1
Substation	13.0	11.3	14.4	15.1	15.9	69.7
Recurring / Obligation to Serve	14.4	15.6	16.6	17.7	18.9	83.2
System Automation	7.0	7.3	7.8	8.2	8.3	38.6
Total	\$ 56.7	\$ 57.3	\$ 65.5	\$ 66.3	\$ 69.7	\$ 315.5

Proposed Electric Rate Increase for Residential Customers

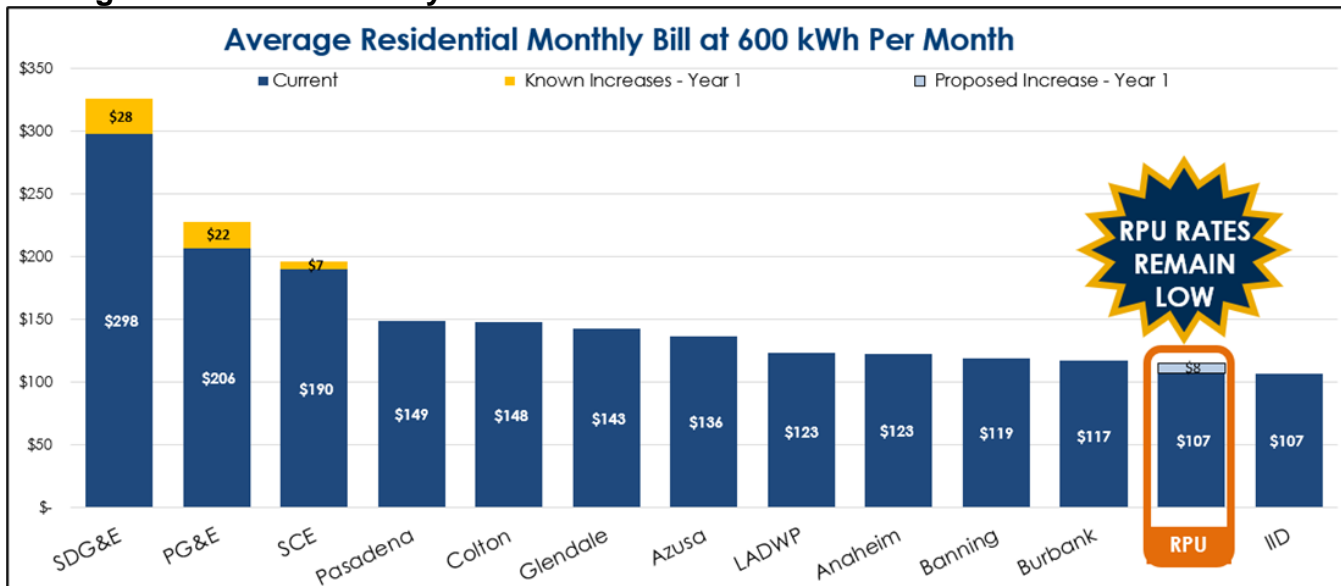
For a typical residential electric customer using on average 600 kWh per month with an average month bill of \$107, the estimated average monthly bill increase in year 1 is \$7.97, while the electric rate increase will be an estimated \$0.21 per day in each year of the rate plan. Rate increases and associated bill impacts will vary by customer class and consumption levels.

Sample Average Rate Increase for Residential Customer

Customer Class	Avg kWh Usage	Year 1 % Increase	Average Years 2-5 % Increase
Residential	600	7.4%	5.0%

RPU’s electric utility rates will continue to remain competitive within the region. A typical residential electric customer using on average 600 kWh per month, would pay 78% more with Southern California Edison.

Average Residential Monthly Bill



Low-Income Assistance Continues and Future Augmentation Proposed

The electric utility’s low-income assistance program assists 4,880 electric customers with monthly bill assistance and is proposed to increase from \$16 per month to \$20 per month for qualifying customers. The income qualification for the Sharing Households Assist Riverside’s Energy (SHARE) Program is based on 250% of the Federal poverty income guidelines and the number of people in the household. The monthly bill assistance will be evaluated annually and future increases in monthly credits will align with each effective year of the proposed five-year rate plan. The electric utility’s low-income assistance program is included in the annual electric utility public benefits fund budget.

Proposed Electric Rate Increase for Commercial Customers

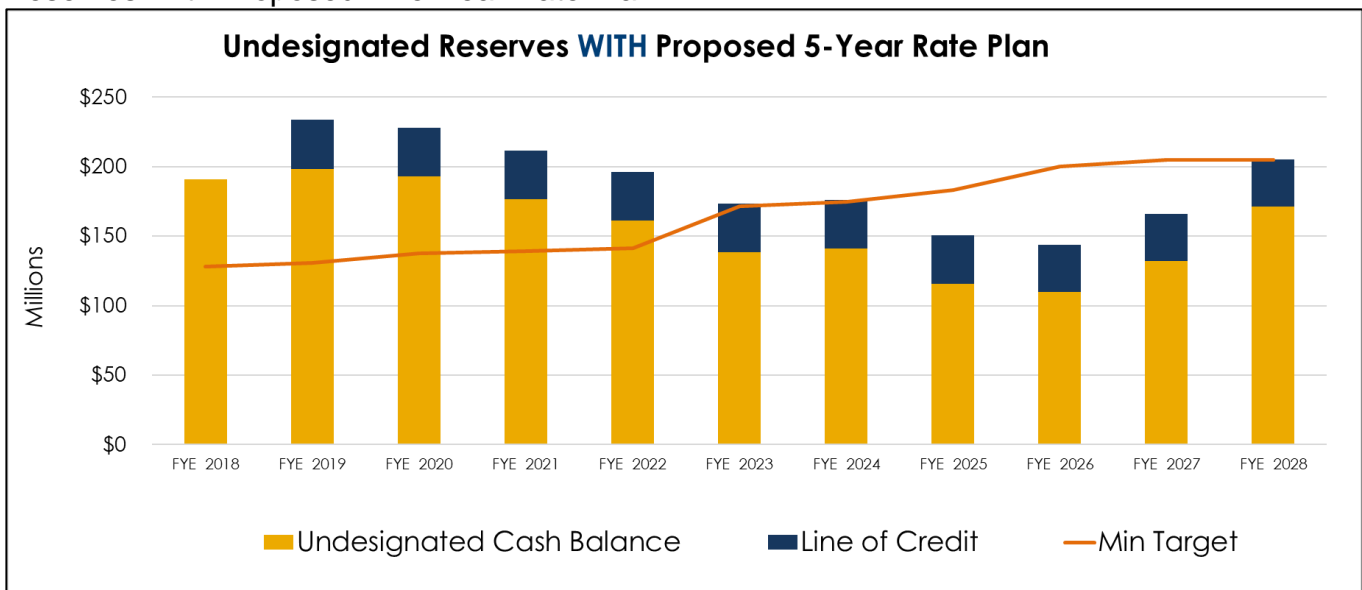
For a typical commercial electric customer using on average 1,750 kWh per month with an average monthly bill of \$342, the estimated average monthly bill increase in year 1 is \$9.12, while the electric rate increase will be an estimated \$0.43 per day in each year of the rate plan. Rate increases and associated bill impacts will vary by customer class and consumption levels.

Sample Average Rate Increase for Commercial Customer

Customer Class	Avg kWh Usage	Year 1 % Increase	Average Years 2-5 % Increase
Commercial Flat	1,750	2.7%	3.8%

The proposed five-year electric utility rate plan will fund future operating and capital costs, maintain reserve levels and financial metrics that comply with RPU’s fiscal and reserve policies, and maintain current bond ratings to keep borrowing costs for capital investments low. In order to keep the rate increases in the five-year electric rate plan as low as possible, the undesignated reserve balance combined with the line of credit does fall below minimum target reserve levels for a three-year period then returning to above minimum target reserve levels within the timeframe required by the reserve policy.

Reserves With Proposed Five-Year Rate Plan

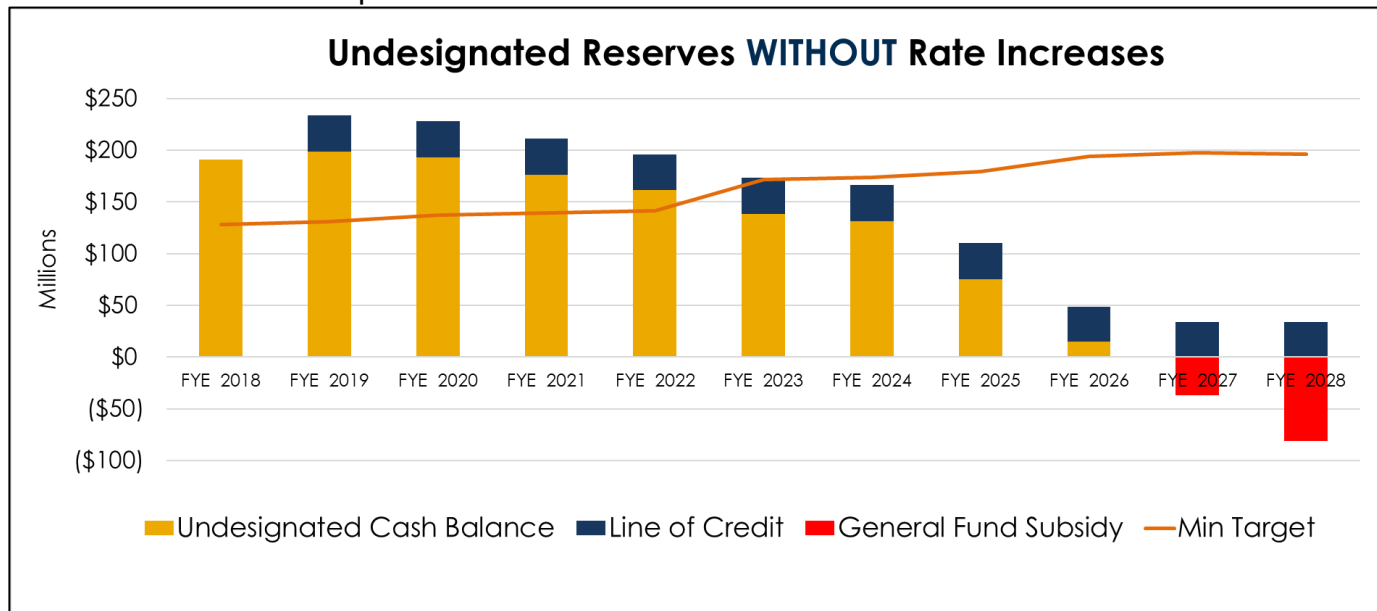


Alternatives and Risks

Without a rate increase, the electric utility will completely spend down undesignated reserves by

June 2027 and require a subsidy from the General Fund to continue operations and carry out planned capital infrastructure projects. Reserve levels dropping below minimum required targets will require significant reductions to expenditures, including reductions in RPU’s current capital program projects, deep cuts to current operations and maintenance spending plans, and significant personnel reductions that will severely impact response time to customers. In addition, when reserve levels drop permanently below minimum mandated levels, RPU’s bond ratings will fall and its cost of borrowing will increase, costing future ratepayers millions in higher debt payments. The below chart depicts the undesignated reserves being entirely depleted between 2026 and 2027 at which point without a rate increase a significant General Fund subsidy would be needed going forward.

Reserves WITHOUT Proposed Five-Year Rate Plan



Follow-up to Questions Raised by Board of Public Utilities

At the June 12, 2023 meeting, the Board of Public Utilities approved a recommendation to the City Council to conceptually approve both the Water and Electric Five-Year Rate plans. During the Board’s consideration of the proposed conceptual rate plan, several questions were asked that required additional research. Staff followed up with presentations to the Board of Public Utilities on three topics:

1. Fiscal Policies and Cash Reserves – presented on June 26, 2023
2. Alternative Rate Scenarios – presented on July 24, 2023
3. Capital Improvement Project Accomplishments From Prior Rate Plan – presented on August 14, 2023

Fiscal Policies and Cash Reserves

On June 26, 2023, the Board received an update on Riverside Public Utilities (RPU) Fiscal Policies – Cash Reserve Policy, as it relates to the Water and Electric Utility Five-Year Rate Plan Proposals. The discussion addressed the purpose of the Reserve Policy to maintain long-term fiscal strength for RPU, defined and detailed the unaudited balances of all RPU reserve accounts, and advised on the calculation formulas for the minimum reserve targets for the electric and water funds. Additional questions were asked including, but not limited to, the following: bond ratings, how reserves affect bond ratings, what it would take to raise the utility’s bond rating, and what does it take to eliminate the Line of Credit.

Reserve Policies Purpose

Properly designed reserve policies send a positive signal to ratepayers, investors, and regulatory and credit rating agencies that the Board and City Council are committed to maintaining the long-term fiscal strength of RPU. Strong and transparent financial policies, including maintaining prudent reserves for emergencies, rate stability, working capital, capital improvements and debt service, are consistent with best practices in the utility industry and are important to RPU as they help to:

- 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

The most recent audited and the current unaudited balances of all RPU Electric reserves are included in the following table.

Schedules of Cash and Cash Equivalents – Electric Utility		
	Audited June 30, 2022	Unaudited March 31, 2023
Unrestricted cash and cash equivalents:		
Undesignated reserve	\$ 161,231,000	\$ 136,104,000
Customer deposits reserve	5,610,000	5,610,000
Capital repair and replacement reserve	2,488,000	2,488,000
Electric reliability fund reserve	82,261,000	87,321,000
Mission Square improvement fund reserve	1,533,000	1,533,000
Additional decommissioning liability reserve	16,107,000	7,976,000
Dark Fiber Reserve	4,942,000	4,942,000
<i>Total unrestricted cash and cash equivalents</i>	\$ 274,172,000	\$ 245,974,000
Legally restricted cash and cash equivalents:		
Reserved for debt service	\$ 18,927,000	\$ 20,792,000
Reserved for bond construction	0	0
Reserved for regulatory requirements	16,366,000	29,271,000
Reserved for low carbon fuel standard	3,233,000	3,916,000
Reserved for Public Benefit Programs	25,032,000	29,177,000
<i>Total legally restricted cash and cash equivalents</i>	\$ 63,558,000	\$ 83,156,000
Total cash and cash equivalents	\$ 337,730,000	\$ 329,130,000
Legally restricted cash and investments at fiscal agent:		
Reserved for decommissioning liability	\$ 42,083,000	\$ 48,937,000
Reserved for other cash at fiscal agent	901,000	433,000
Reserved for debt service	10,801,000	10,807,000
<i>Total legally restricted cash and investments at fiscal agent</i>	\$ 53,785,000	\$ 60,177,000
<i>Total unrestricted and restricted cash</i>	\$ 391,515,000	\$ 389,307,000

Policy History

On December 18, 2015, and March 22, 2016, the Board and the City Council approved the Cash

Reserve Policy. On May 23, 2016, and July 26, 2016, the Board and the City Council approved the existing Riverside Public Utilities (RPU) Fiscal Policies, which incorporated the Cash Reserve Policy in Appendix A. The approved policies documented and adopted financial goals for both the water and electric utilities and established policies for long-term, as well as day-to-day operations of both utilities. The policies cover a number of areas including financial reporting, cash reserves, operating and capital budgeting, debt management, investments, risk management, financial planning, and others.

On January 10, 2017, the City Council adopted the City's existing Debt Management Policy to satisfy the requirements of Senate Bill (SB) 1029.

On May 22, 2017, and July 11, 2017, the Board and City Council approved the Dark Fiber Leasing Program, which included establishing uniform lease rates for the use of the dark fiber infrastructure, physical and cyber security policies, a master fiber lease license agreement, and a new cost center within the Electric Fund for related expenses and revenue with an appropriation of \$1,800,000 for the dark fiber program construction and management activities. The Board and City Council also approved the transfer of \$1,800,000 to a new dark fiber designated reserve to fund leased fiber activities.

On May 22, 2018, the City Council approved rates that include the use of a Line of Credit (LOC) as part of the 5-Year Rate proposal to keep utility rates as low as possible. Utilizing a LOC reduced the electric and water rates by approximately 1% and 3%, respectively. A LOC is a low-cost financial tool available to entities with strong credit ratings that provides flexibility and operating liquidity similar to cash reserves if there is an emergency need. The LOC allows RPU to reduce the rate impact to customers by enabling RPU to spend cash reserves on capital projects while the LOC is used in lieu of cash to meet the overall liquidity and reserve levels necessary to maintain RPU's strong bond ratings.

On June 25, 2018 and July 24, 2018, the Board and City Council approved the updated RPU Fiscal Policies and Cash Reserve Policy which included providing a reference and link to the City's Debt Management Policy within the RPU Fiscal Policies, removing the separate appendix for a RPU Debt Management Policy, including the Dark Fiber Designated Reserve in the Cash Reserve Policy, and adding the use of the LOC to the Cash Reserve Policy.

On November 9, 2020, the Board received an update on the Riverside Public Utilities' Cash Reserve Policy, funds and use of funds. At this meeting, the Board requested a comparative analysis of RPU's cash reserve policies and the credit ratings compared to other similarly sized utility organizations in the region as well as an analysis of potential impacts of the Covid-19 pandemic to RPU's cash reserve.

On July 26, 2021 and September 7, 2021, the Board and City Council approved the updated RPU Fiscal Policies and Cash Reserve Policy which included the addition of designated reserves for the Electric Fund only for Additional Decommissioning Liability to reflect the increase in annual funds to the San Onofre Nuclear Generating Station (SONGS) Additional Decommissioning Liability Reserve from \$1.6 million to \$2 million annually; the removal of calculation of operating and maintenance expenses from the Undesignated Reserves for Working Capital; the removal of capital improvement expenditures funded with restricted or designated reserves from Undesignated Reserves for System Improvement Capital; and updated definitions to simplify reserve terminology.

Definitions of Reserves

RPU’s reserves are either restricted or unrestricted and are classified into three categories.

Restricted Reserves are established and utilized for narrowly defined purposes as specified by legal restrictions, bond covenants, and other regulations or ordinances. The restricted reserves for the Electric utility are as follows:

Restricted Reserve	Definition
San Onofre Nuclear Generating Station (SONGS) Decommissioning	Riverside owns 1.79% of SONGS Units 2 & 3, within Camp Pendleton, that was permanently retired on June 7, 2013. This reserve was established in June 2017, for Riverside’s share of the decommissioning cost obligations that are held with the trustee for the decommissioning costs.
Regulatory Requirements Reserve (Cap and Trade auction proceeds)	Funds set aside for regulatory requirements for greenhouse gas allowances and low carbon fuel standard proceeded as legally restricted for specific purposes.
Unspent Bond Proceeds to Fund Capital Projects	Funds restricted by bond covenant, allowable only for qualified approved capital projects
Bond Redemption Reserve (Debt Service)	This reserve is set aside for future bond payments that are governed by bond covenants.
Electric Public Benefits Fund	Assembly Bill 1890, adopted in 1996, monthly surcharge of 2.85% of the total electric charge to be used for low-income customer assistance, energy efficiency and conservation programs, renewable resources and energy research and development.

Designated Reserves are that portion of unrestricted reserves that meet specific purposes set aside by the Board and City Council. Designated reserve funds ensure stable service delivery, meet future needs, and protect against financial instability. Designated reserves may be held for specific capital and operating purposes. Current designated reserves for Electric are as follows:

Designated Reserve	Definition
Customer Deposits	Monies held on behalf of RPU’s customers as required to be utilized if a customer fails to pay their utility bill.
Additional Decommissioning Liability	Established in June 1998, and updated March 2016 to accumulate extra funds held at the City (not with the SONGS trustee) for the uncertainty of costs associated with the SONGS Decommissioning activities.
Electric Reliability	Established in December 2007 to fund the debt service and capital expenditures for construction of internal electric generation and purchase of state transmission grid capacity, annual repair and improvements to internal generation facilities, and fund internal RPU sub-transmission system upgrades for RTRP improvements. The funds are received from retail customers through the Reliability Charge on each monthly bill.
Mission Square Improvement	Established June 2015 to accumulate funds for major improvements to the Mission Square facility; funded by an annual contribution equal to 2% of the building value up to a maximum reserve equal to 25% of the building value.

Capital Repair/Replacement	Established March 2016 to accumulate amounts for repairs and replacement of facilities, vehicles, and technology outside of the Capital Improvement Program.
Dark Fiber	Established July 2017 to accumulate proceeds from fiber leasing activity and account for expenditures of the dark fiber program.

RPU will use designated reserves to mitigate the impacts of known and impending exposures. The withdrawal and replenishment of Council/Board-approved designated reserves and their allowable uses will be tracked individually, but the specific use of designated reserves falls outside the scope of this policy and is subject to Board and Council approval.

Undesignated Reserves are the remaining unrestricted reserves that may be used for any lawful purpose and have not been designated for specific capital and operating purposes; however, maintaining a proper level of undesignated reserves is critical to ensure the utility can meet its fluctuating cashflow demands and mitigate financial volatility. The following Undesignated Reserve Policy addresses the levels, use and replenishment of this type of unrestricted reserve.

Undesignated Reserve Policy

The Undesignated Reserve Policy states RPU will have sufficient undesignated reserves to maintain or improve its credit ratings, ensure that operating and maintenance costs will be paid in a timely manner, to pay debt service obligations, and to invest in needed capital improvements and equipment replacement on a timely basis. In addition, RPU will maintain sufficient reserves to minimize rate increases due to market volatility, weather impacts on demands, emergencies (such as natural disasters), and regulatory changes.

The Policy provides minimum and maximum levels of undesignated reserves. Each of the areas of undesignated reserves include considerations for evaluation to determine the appropriate reserve levels. RPU maintains such monies pooled in each utility’s undesignated reserve. These reserve allocations are consistent with industry standards for similarly rated electric utilities. Each component of the reserves is sized at less than the maximum possible exposure for each component because it is unlikely several of the risks each enterprise faces would materialize simultaneously. The following table represents the Electric utility undesignated reserve definitions.

Undesignated Reserve	Definition
Operating (Working Capital)	Ensures sufficient resources to pay budgeted operating and maintenance expenses, including power supply costs, recognizing the timing differences between payment of expenditures and receipt of revenues.
Rate Stabilization	Mitigates rate shock due to temporary and transitional regulatory changes, loss of a major resource, sharp demand reduction or market volatility.
Emergency Capital	Provides funds to ensure ability to repair system after an emergency or natural disaster such as a flood, earthquake or major windstorm
System Improvements Capital	Provide funds to ensure continuity of construction over fiscal years to be reimbursed by bond proceeds or other resources.
Debt Service	Ensures ability to make debt service payments in an extreme event that may impact RPU’s ability to provide services, thus impacting revenues at a time critical infrastructure repairs are needed to restore systems. The Debt Service Reserve is intended to prevent an event where RPU would be unable to pay its debt service obligations during such emergencies, or extreme market disruptions.

Withdrawal and Replenishment of Reserves

RPU treats the targeted reserves as practical minimums and allows reserves to increase or decrease as necessary within the minimum and maximum prescribed levels.

To the extent that undesignated reserves are above the target and below the maximum, the Board and City Council have the flexibility to direct staff to utilize those available funds to pay for capital projects (reducing the need for future debt), pay down unfunded liabilities such as pension obligations, decrease outstanding debt, or fund other strategic objectives. No other action by RPU would be required if reserves are between the minimum and maximum level unless directed by the Board and City Council.

If reserve funds exceed the maximum level, RPU would seek Board and City Council approval to use the excess to finance capital improvements on a pay-as-you-go basis, pay down existing debt, offset other long-term liabilities such as pension obligations, reduce rates or fund other strategic initiatives.

Reserve levels below the minimum targeted reserves will leave RPU exposed to significant operational risks. Should RPU draw down reserves below the minimum targeted level, RPU will implement plans to return reserves to their minimum targeted levels **within three years**. Such plans will be provided within 12 months.

Reporting and Oversight

Reserve levels are monitored throughout the fiscal year and reported in the monthly and quarterly financial reports. Reserve target (minimum) and maximum levels are analyzed annually, and an over/under reserve determination is made in conjunction with year-end financial results. These results are reported to the Board and City Council as part of the year-end financial report presentation. Should designated or undesignated reserve levels need adjustment due to new risk factors due to changes in the industry, these will be brought to the Board and City Council as part of the year-end report.

The Policy is to be reviewed annually and updated (at a minimum of every three years) if there are material changes in the risk exposures or new conditions that require changes in reserve levels.

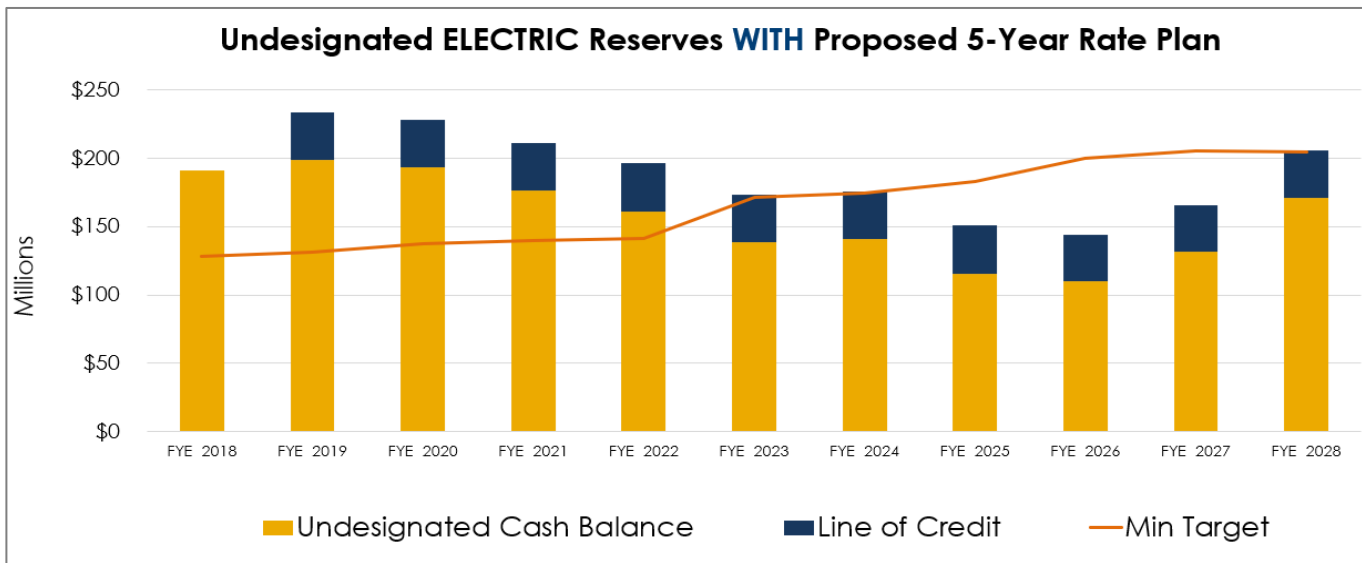
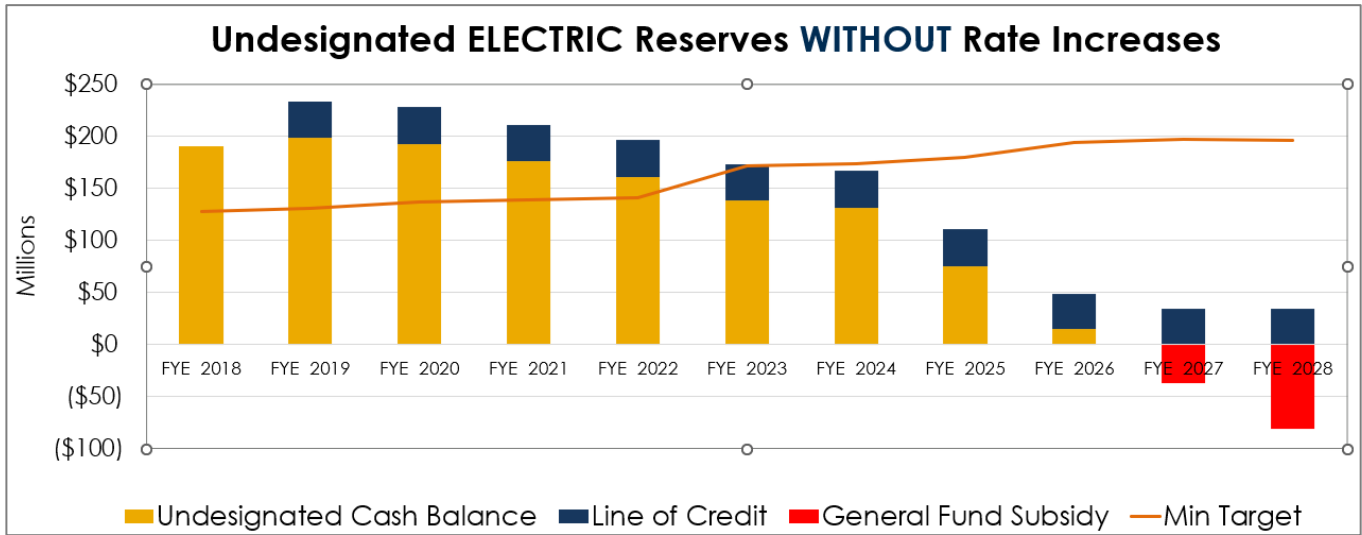
Minimum Reserve Target Calculation

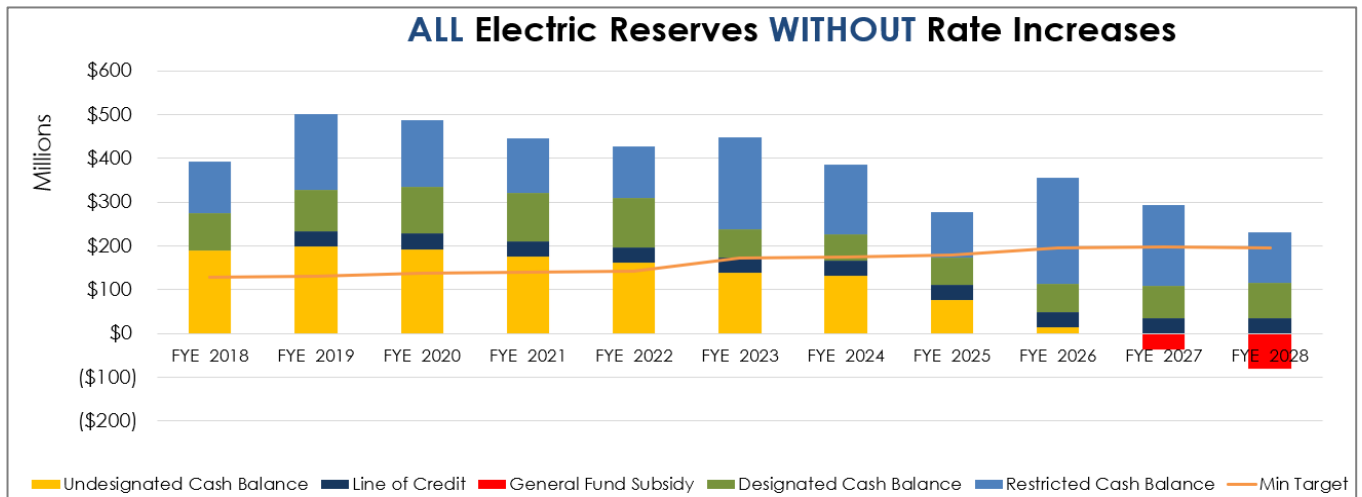
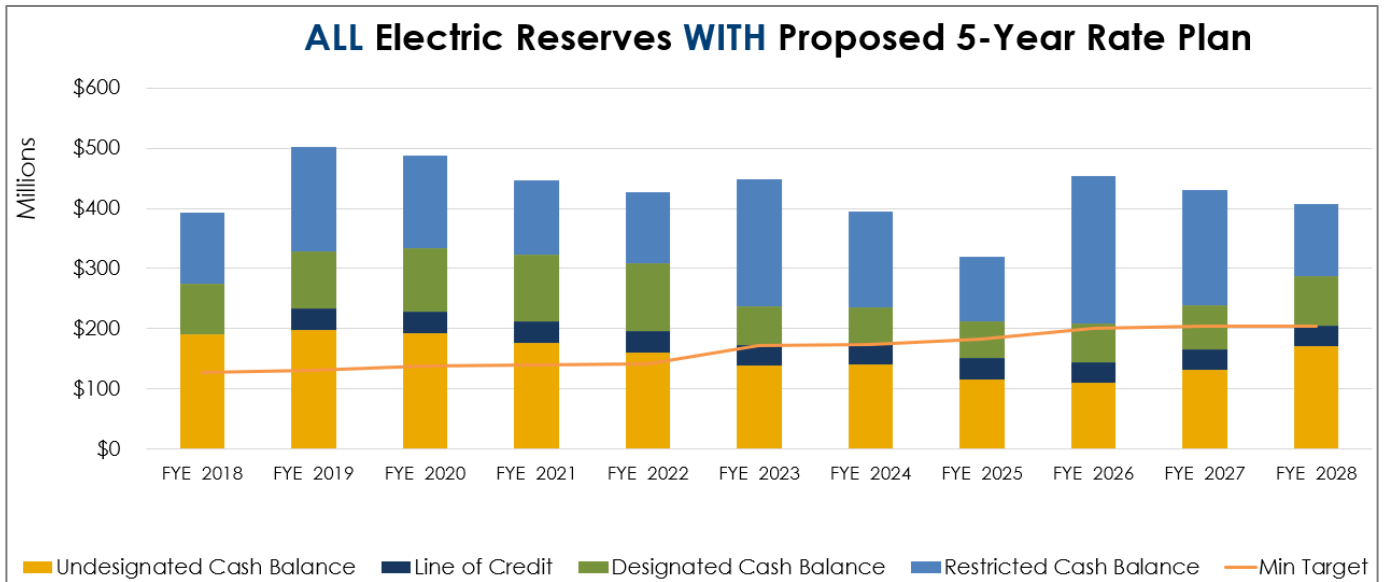
Clarification has been requested on how RPU calculates the Minimum Reserve Targets in alignment with the approved fiscal policy. The following table is the formula for Electric.

Minimum Reserve Target - Electric		
Source	Target	Formula
Operating (Working Capital)	60 days	$\frac{\text{Annual Operating Exp}}{365 \text{ Days}} \times 60$
Rate Stabilization	10%	$\text{Operating Revenues} \times 10\%$
Emergency Capital	1%	$\text{Depreciable Assets} \times 1\%$
System Improvement Capital	6 months	$\frac{\text{Prev FY actual CIP exp} + \text{Curent FY CIP} + \text{Next FY CIP}}{3 \text{ (years for average CIP exp)}} \times \frac{12 \text{ Months}}{3 \text{ year Average CIP exp}} \times 6$
Debt Service	1 payment	Annual Payment for principal and 6 months of interest
Total		Sum of above

Electric Undesignated Reserve – Five Year Rate Plan

The June 12, 2023 proposed five-year electric utility rate plan will fund future operating and capital costs, maintain reserve levels and financial metrics that comply with RPU’s fiscal and reserve policies, and maintain current bond ratings to keep borrowing costs for capital investments low. In order to keep the rate increases in the five-year electric rate plan as low as possible, the undesignated reserve balance combined with the line of credit does fall below minimum target reserve levels prior to returning to above minimum target reserve levels within three-year timeframe required by the reserve policy.





Alternative Rate Scenarios

At the June 26, 2023 meeting, there were Board Member questions regarding an analysis of alternate rate scenarios, along with the possibility of “smoothing” the rate increase to a fixed amount, over the 5-year rate plan instead of higher increases in the first three years of the rate plan.

On July 10, 2023, the Board received an update to review potential fiscal impacts of alternative rate scenarios from the currently proposed Water and Electric Utility Five-Year Rate Plan Proposals. The discussion included requests from the Board to model potential scenarios to demonstrate the impact of the alternative rates on the financial health of the Electric and Water utilities. The models were estimates, assuming no changes to the respective Cost of Service Analysis (COSA) assumptions included in the rate plan proposals. While the alternative annual residential electric rate increase of 6.25% smoothing scenario does meet the fiscal funding goals, the compounded annual rate increase impact was higher than the proposed plan for the residential customers. The models did not result in changes to the staff recommendations for the rate plans.

The proposed five-year Electric and Water Plans uses the cost of service analyses (COSA) to design the rates to appropriately recover the cost for providing the utility service. The COSAs determine the revenue required to fund the operations, maintenance, and improvements of the respective utilities within the framework required by California state law, and City and utility policies.

The COSAs compile the projected costs, customer usage demands and customer account growth rates by customer class over the term of the rate plan to calculate the revenue requirement to meet the necessary funding levels. The projections include costs not only to operate and maintain the utility systems but also include the costs for customer and administrative expenses, capital project debt service expenses and adjustments to meet minimum cash reserve levels established by Board- and City Council-approved policies.

The projected costs are detailed in the COSA by category (by expense category in Table ES-3). Table 1-3 displays the calculation of the Revenue Requirement which equates to the funding shortage if no changes to the current rate plan are made.

Function	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Production O&M	\$177,117	\$169,461	\$175,379	\$178,159	\$188,078
Transmission O&M	64,651	66,913	69,137	71,613	47,543
Distribution O&M	21,482	22,294	23,202	23,940	24,681
Customer O&M	9,446	9,803	10,203	10,527	10,853
Administrative and General O&M	41,873	43,455	45,226	46,665	48,108
Total O&M	\$314,569	\$311,926	\$323,146	\$330,905	\$319,264
Debt Service	63,000	66,087	69,441	78,260	75,784
Transfer to General Fund	45,419	45,334	48,505	52,025	54,799
Capital Funded by Rates	4,071	4,290	4,194	3,502	4,038
Allocation to (Use of) Reserves	(19,019)	8,445	22,540	28,980	28,212
(minus) Other Revenues	(46,030)	(47,265)	(49,235)	(51,840)	(25,947)
Net Revenue Requirement	\$362,009	\$388,817	\$418,591	\$441,832	\$456,150

Source: RPU Financial Pro Forma Model and COS Model. Note, numbers may not add due to rounding.

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total
Revenue Requirement	\$362,009	\$388,817	\$418,591	\$441,832	\$456,150	\$2,067,400
Revenue from Customers ⁽¹⁾	\$343,699	\$347,316	\$351,864	\$356,678	\$361,988	\$1,761,545
Difference ⁽²⁾	(\$18,310)	(\$41,501)	(\$66,727)	(\$85,155)	(\$94,162)	(\$305,855)

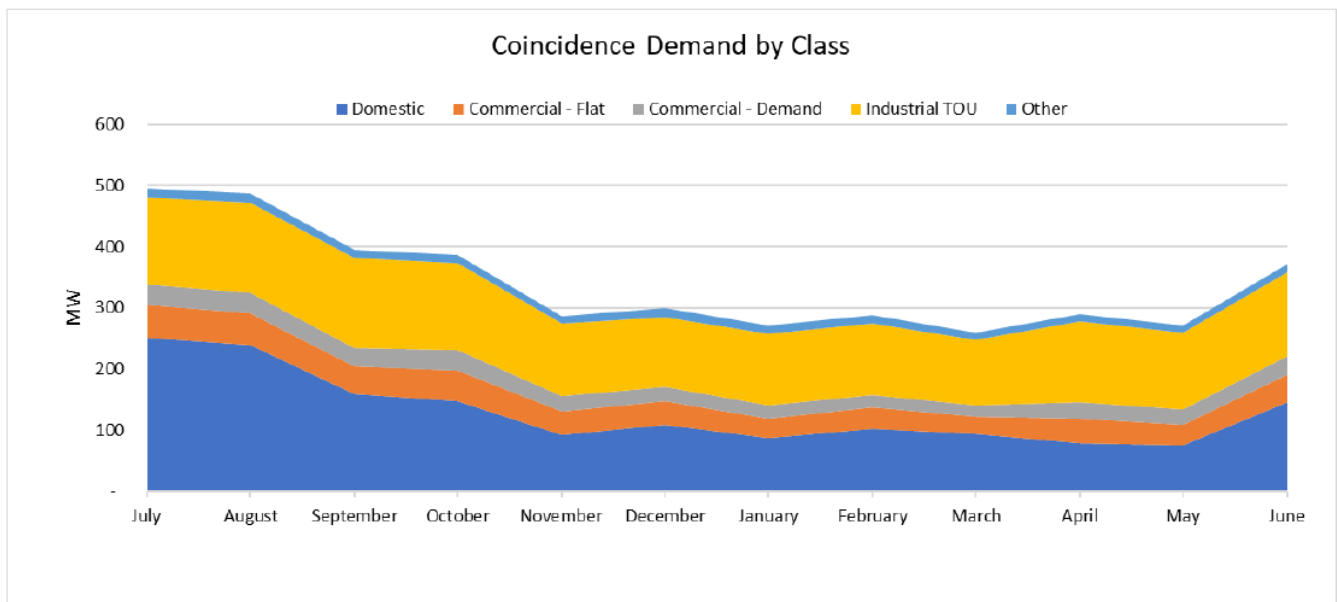
(1) Utilizing existing 2023 rates, assuming no adjustments for elasticity.
 (2) Totals may not add due to rounding.

Customer Class	4 NCP (MW)	Allocation (%)
Domestic	815	40.0%
Commercial – Flat	272	13.4%
Commercial – Demand	144	7.1%
Industrial TOU	728	35.7%
Other Classes ⁽¹⁾	77	3.8%
Total System ^(2,3)	2,036	

(1) Other classes include street lights, City load, traffic signals and agricultural load.
 (2) Based on Test Year projections provided by RPU.
 (3) Totals may not add due to rounding

The proposed Electric rate plan changes impact certain customer classes more than others due to the impacts of seasonal demand peaking of electric usage. Table 4-3 and graph illustrate that the Domestic category (Residential, Multi-family) contributes the greatest amount to the peak usage demands among all customer classes. Generally, higher peak load demands contribute to higher than standard costs and consequently, have greater cost allocations to the class. Other categories, such as Commercial-Flat rate customers, use electricity in similar amounts throughout the year and do not add to the peak demands loads as much as the Domestic (Residential) and Industrial classes.

RPU Monthly Coincident Peaks

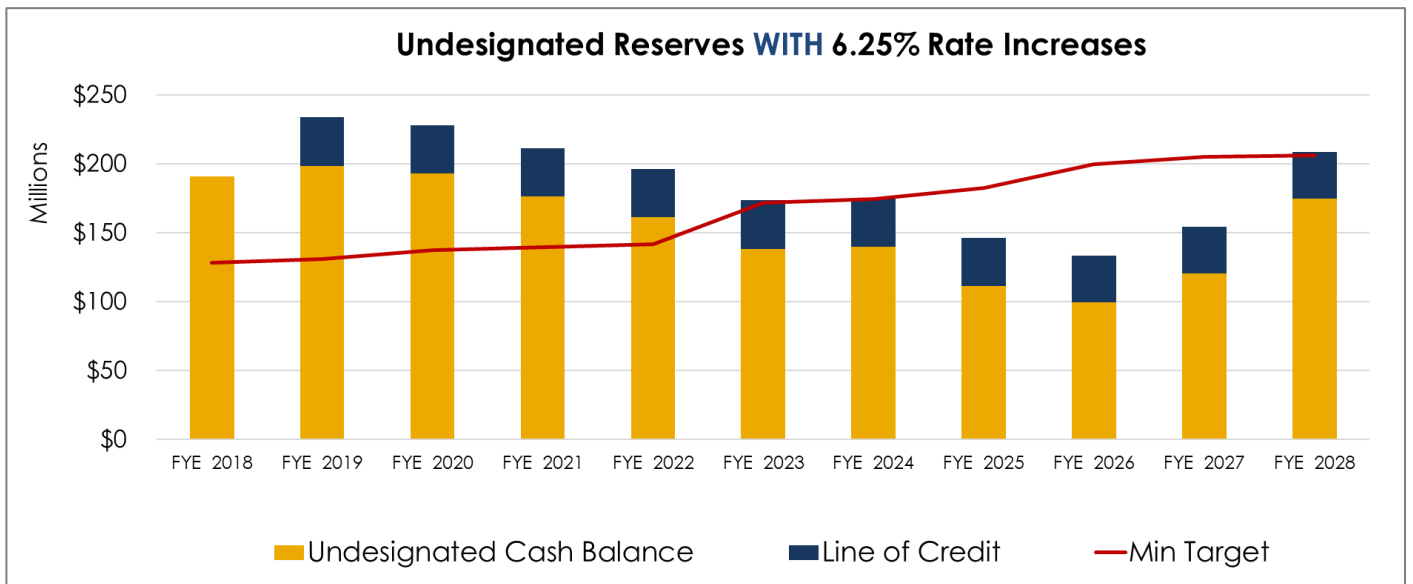
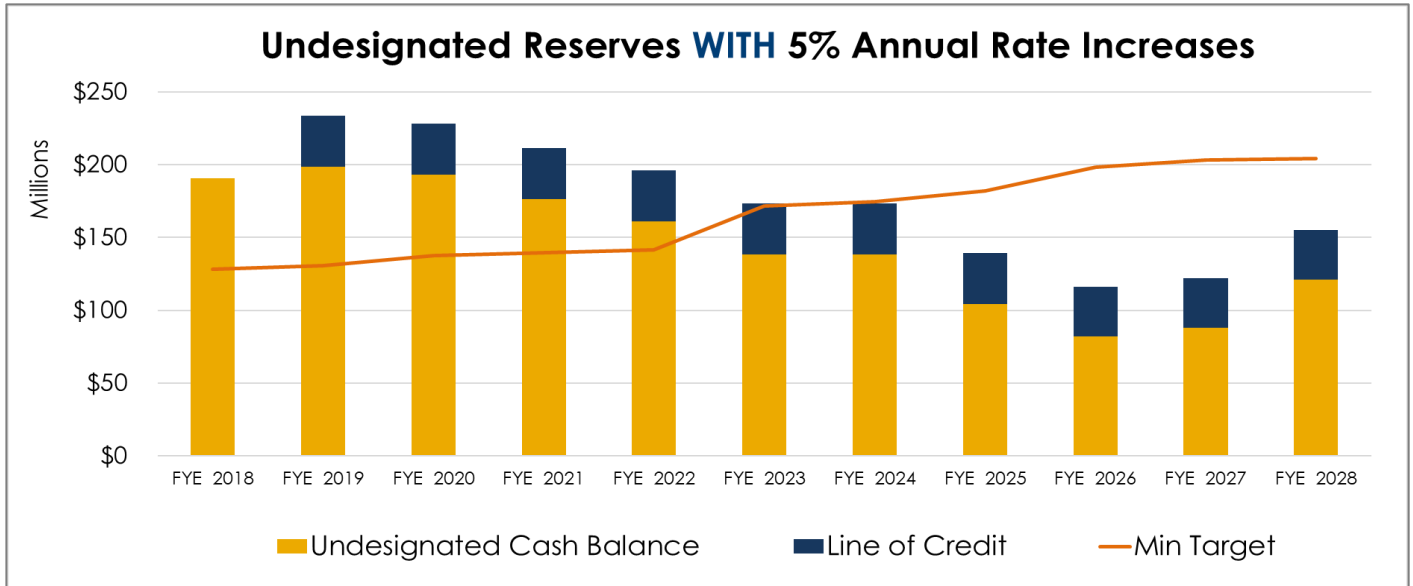


“Smoothing” rates across the term of the proposed rate plan will result in under-collection of revenues. A level rate increase of 6.25% over 5 years instead of the proposed (7% for first 3 years and 2% for the final 2 years) would result in higher cumulative rates and customer impacts

(an additional 7.9%) to achieve the same Revenue Requirement goal of meeting minimum policy reserve levels in year 5 of the rate plan.

Meeting the requirements of the Board- and City Council-approved Reserve policies is considered a benchmark goal in the COSA.

The below alternative rate scenarios were provided:



Conclusion

The alternative rate model estimates do not include any changes to the respective COSA assumptions already provided in the rate plan proposals. The models did not result in changes to the staff recommendations for the rate plans as presented to the Board on June 12, 2023, or to City Council on June 27, 2023. There are no alternative schedules that also meet all of the COSA goals including meeting minimum Board- and City Council-approved minimum reserve levels.

The “5% Annual Scenario” indicates that the utility does not generate sufficient revenues to meet

the minimum rate plan reserves. **The “6.25% Annual Scenario” indicates that the utility does generate sufficient revenues to meet the minimum rate plan reserve requirement;** however, the cumulative rate plan impact at the 6.25% annual level after five years is greater than the proposed rate plan adjustments. The result is the staff recommended and the Board conceptually approved electric rate plan meeting all operating, maintenance, debt service and reserve balance requirements at the lowest cumulative five-year cost.

Capital Improvement Project Accomplishments From Prior Rate Plan

At the June 26, 2023 meeting, there were Board Member requests for an update on the Capital Improvement Project accomplishments from the prior rate plan.

On Aug 14, 2023, the Board received an update on the Capital Improvement Plan budgets and expenditure for fiscal years 2018-2023 and the planned capital investments to be funded by the currently proposed for the Electric and Water Utility Five-Year Rate Plan Proposal.

The City of Riverside’s Capital Improvement Program (CIP) is a multi-year financial plan for the repair, replacement, and/or construction of municipal facilities and infrastructure. The City’s CIP Plan strategically identifies both funded and unfunded capital improvement projects over a period of five years. Projects are budgeted during the City’s two-year budget cycle or amended by the Board of Public Utilities and City Council as required in the interim.

CIP is defined as a long-term investment of funds to improve, repair, or replace an existing capital asset and/or construct or acquire a new capital asset. A capital project is a city resource and/or property with a monetary value of at least \$20,000 and an initial useful life of at least 10 years.

Electric Utility Ten-Year CIP

On January 18, 2018, the City Council conducted a joint workshop with the Board to receive additional information regarding the electric and water utility five-year rate proposal 2018-2022; to conceptually approve the electric and water utility five-year rate proposal 2018-2022 utilizing the Utility 2.0 Strategic Plan Modified Option 1 for electric and water utility infrastructure improvements over the next ten years, with rates approximately 35% lower than the original five-year rate proposal based on Option 3 infrastructure improvements; and to prepare all documents necessary for public noticing of the rate proposal, to update proposed rate schedules and fiscal policies to reflect changes due to the rate proposal, and to update any other documents necessary for the public hearing to be held before the Board of Public Utilities on May 14, 2018, and final rate recommendations to the City Council on May 22, 2018, with new rates effective July 1, 2018. Following discussion, it was approved to conceptually approve the electric and water utility five-year rate proposal 2018-2022 utilizing the Utility 2.0 Strategic Plan Modified Option 1 for electric and water utility infrastructure improvements over the next ten years, with rates approximately 35 percent lower than the original five-year rate proposal based on Option 3 infrastructure improvements, with yearly review by the City Council.

RPU prepares two-year operating and five-year capital budgets, which serve as RPU’s revenue and expenditure plan. These budgets are prepared in accordance with existing City, Board of Public Utilities, and City Council policies, procedures, and guidelines. RPU’s budget and corresponding CIP investments from the 2018 10-year CIP program, have been approved by Board and City Council.

City Council Date	Budget Fiscal Years	CIP Fiscal Years	CIP report link
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6/18/2019	2019 – 2020 (amended)	2019 - 2024	https://riversideca.gov/finance/PDF/2018/2018-2023%20Capital%20Improvement%20Plan.pdf
6/16/2020	2020 – 2021	2020 -2021	https://www.riversideca.gov/finance/PDF/budget-2021/FY2020_2021_Capital_Improvement_Plan.pdf
6/22/2021	2021 -2022	2021 - 2022	https://www.riversideca.gov/finance/PDF/budget-2022/2022%20CIP.pdf
6/21/2022	2022 - 2024	2022 -2024	https://riversideca.gov/finance/2023%20CIP.pdf

There were no changes to CIP for fiscal year 2023/24 Budget as approved by City Council on June 27, 2023.

Electric CIP

The Electric Plan rate increases support investment in the electric system. The following is a summary of the 2018 investment plan, the 2018-2023 expenses, and the projects to be funded by the currently proposed Electric Utility Five-Year Rate Plan.

Project Category	10 Year Plan (2018-2028)	Budgeted (2018-2023)	Expenditures 2018-2023	5 Year Plan (2024-2028)
1. Overhead Projects	\$89,208,000	\$30,428,289	\$10,895,370	\$48,947,000
2. Underground Projects	\$139,326,000	\$29,966,569	\$18,973,956	\$75,125,000
3. Substation Projects	\$88,100,000	\$30,448,024	\$38,021,033	\$69,683,000*
4. System Automation	\$96,574,000	\$45,189,662	\$26,110,384	\$83,162,000
5. Recurring Projects	\$115,037,000	\$94,902,173	\$72,273,033	\$38,582,000
Total:	\$528,245,000	\$230,934,717	\$166,273,776	\$315,499,000
Rate Increase:	3%			5%

*+/- \$40 million Hunter Substation will be funded with carryovers and/or using a portion of \$69,683,000 Substation Project funding in the 2023 5-Year Rate Plan. No additional CIP in the proposed five-year Electric Rate Plan.

1. Overhead Projects: \$89,208,000 10-Year Investment (FY 2018-2028)

- 1,270 streetlight retrofits
- 3,080 poles and related equipment replacements
- 600 overhead switches replacements
- Convert 29 4kV circuits to 12kV in 6 years

Completed as of June 30, 2023, \$10,895,370 (FY 2018-FY 2023)

- 811 streetlights replaced
- 900 poles and related equipment replaced
- 200 overhead switches replaced
- 10 circuits converted to 12kV

Planned: \$48,947,000 (FY2024-2028)

- 376 streetlight retrofits
- 1,540 poles and related equipment
- 400 overhead switch replacements
- 15 voltage conversions (4kV to 12kV)

2. Underground Projects: \$139,326,000 10-Year Investment (FY 2018-2028)

- 62 miles of cable replacement
- 262 vault replacements
- 116 switch replacements

Completed as of June 30, 2023, \$18,973,956 (FY 2018-FY 2023)

- 18 miles of cable replaced
- 4 vaults replaced

- 10 switches replaced

Planned: \$75,125,000 (FY2024-2028)

- 25 miles of cable replacement
- 30 vault replacements
- 25 switch replacements
- 20 Distribution Line Extension and Line Rebuilds

3. Substation Projects: \$88,100,000 10-Year Investment (FY 2018-2028)

- 7 transformer replacements
- 5 switchgear replacements
- 70 breaker replacements
- 570 relay replacements

Completed as of June 30, 2023, \$38,021,033 (FY 2018-FY 2023)

- 3 transformers replaced and 2 transformers in the procurement process
- 2 switchgears replaced and 12 capacitors replaced
- Approximately 280 electromechanical relays with 80 digital relays replaced
- 45 circuit breakers replaced and upgraded

Planned: \$69,683,000 (FY2024-2028)

- Harvey Lynn Switchgear 5 Relay Replacement (Phase 2)
- Riverside Switchgear 3,4&5 phase 4 Upgrade
- Harvey Lynn Substation Upgrade Project
- Hunter Substation Replacement Project
- La Colina Substation Upgrade (Phase 2)
- La Colina - University Line Relay Replacement
- Riverside Breaker 52-4
- Riverside Transformer T6 Addition
- Substation Automation System Upgrades (Phase 2)
- Orangecrest Relay Upgrades (SWGR 1 & 2)
- Plaza Substation 69kV Breaker Replacement
- Plaza Substation Ring Bus Project & Retirement of T1 & T2
- Battery Charger Replacement Program
- Springs - Orangecrest Fiber Cable Replacement
- Replace Radio Sites Generators
- System - Wide relay Improvement

4. System Automation: \$96,574,000 10-Year Investment (FY 2018-2028)

- Citywide streetlight LED lamp replacement program
- Electric vehicle charging stations
- Substation and distribution system monitoring and control

Completed as of June 30, 2023, \$26,110,384 (FY 2018-FY 2023)

- Replaced over 25,000 high pressure sodium lamps with new LED luminaires
- Established electrical service four (4) for privately owned electric vehicle charging stations
- Completed substation teleprotection and substation automation projects, including Remote Terminal Units (RTU) upgrades.

Planned: \$83,162,000 (FY2024-2028)

- 6,000 Citywide streetlight LED lamp replacement program for Historic Districts
- Electric vehicle charging stations and Infrastructure upgrades
- Substation and distribution system monitoring and control
- Outage Management System
- Advanced Distribution Management System

5. Recurring Projects: \$115,037,000 10-Year Investment (FY 2018-2028)

Facilities needed to serve new customers and expanded load, including:

- Services and meters for new customers
- Line extensions and rebuilds
- Overhead to underground conversions

Completed as of June 30, 2023, \$72,273,033 (FY 2018-FY 2023)

- Issued to Construction over 710 new Electric Service designs and meter panel upgrades for new customer/developer driven projects, including but not limited to new line extensions and overhead to underground conversions.

Notable projects include:

- Two new Feeder Line Extensions for the California Air Resources Board (CARB) Headquarters Facility
- UCR North District Phase 1 Line Extension
- Nordstrom Feeder Line Extension
- The Exchange Development Line Extension
- Iowa Avenue Road Widening and Overhead to Underground Conversion
- UCR Linden Avenue Overhead to Underground Conversion Phase 1

Planned: \$38,582,000 (FY2024-2028)

Facilities needed to serve new customers and expanded load, including:

- Services and meters for new customers
- Line extensions and rebuilds
- Overhead to underground conversions

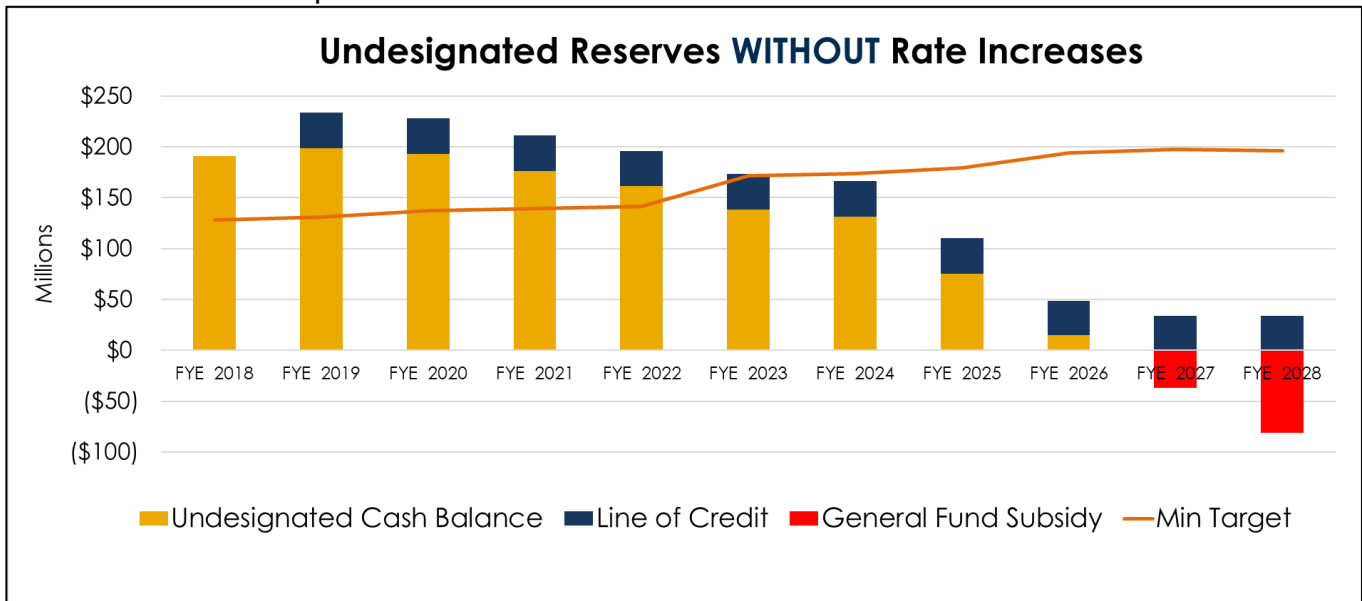
DISCUSSION:

The current five-year electric rate plan effective January 1, 2019, through December 31, 2023 is not sufficient to meet the inflation of costs in the general economy and even greater inflationary market prices in power supplies and construction costs. RPU's proposed electric rate increases are the result of these increased operational and capital costs and the need for additional funding to address declining reserve levels, pressures on financial metrics, and meeting fiscal policy requirements.

Without an Electric Rate Increase

Without a rate increase, the electric utility will completely spend down undesignated reserves by June 2027 and will require a subsidy from the General Fund to continue operations and carry out planned capital infrastructure projects. Reserve levels dropping below minimum required targets will require significant reductions to expenditures, including reductions in RPU's current capital program, deep cuts to current operations and maintenance spending plans, and significant personnel reductions that will severely impact response time to customers. If reserve levels drop permanently below minimum mandated levels, RPU's bond ratings will fall and its cost of borrowing will increase, costing future ratepayers millions in higher debt payments. The following table depicts the undesignated reserves being entirely depleted between 2026 and 2027 at which point without a rate increase a significant General Fund subsidy would be needed going forward.

Reserves Without Proposed Five-Year Rate Plan



Overview of Rate Proposal

RPU’s electric utility is faced with many current and future challenges including aging infrastructure, power supply costs and sustainability challenges, and increased operational and capital costs.

Power supply challenges include State carbon neutrality mandates and local carbon reduction goals requiring a rapid transition to 100% clean energy, meeting increased loads and peak demands, increasing transmission access charges related to new transmission investment needed to integrate regional renewable resources, and regulatory encroachment resulting in loss of local control and creating challenges to maintain rate affordability in alignment with local needs. Costs for natural gas have doubled over the last two years due to increased liquid natural gas exports and restricted capacity on western interstate gas pipelines, which, along with supply-chain challenges delaying the development of new renewable resources, have caused costs for California Independent System Operator (CAISO) market energy to increase 60% to 80%.

RPU is proposing a five-year (fiscal years 2023/24 through 2027/28) electric utility rate plan that will result in a five-year system average annual rate increase of 5.0%.

Proposed Five-Year Electric Utility Rate Plan

Proposed Five-Year Electric Utility Rate Plan System Average Rate Increases	
January 1, 2024	7.0%
January 1, 2025	7.0%
January 1, 2026	7.0%
January 1, 2027	2.0%
January 1, 2028	2.0%

Rate increases and associated bill impacts will vary by customer class and consumption levels.

Relevant electric utility rate plan documents and information are online:

<https://www.riversideca.gov/proposed-rates>

Proposed Five-Year Electric Rate Plan by Major Customer Class

Customer Class	Customers	Year 1 % Increase	Year 2 % Increase	Year 3 % Increase	Year 4 % Increase	Year 5 % Increase
Residential	99,718	7.1%	7.1%	7.0%	2.3%	2.4%
Commercial Flat	11,015	2.5%	2.8%	3.0%	3.0%	2.9%
Commercial Demand	988	0.0%	0.0%	0.0%	0.0%	0.0%
Industrial TOU	622	5.9%	6.6%	6.3%	4.3%	4.3%

The five-year rate plan will fund \$316 million in electric capital infrastructure and support current and future bond issuances providing \$276 million in bond proceeds to fund capital infrastructure. New electric capital infrastructure investments are re-using the planned capital costs (no additional funding has been requested) include funding the Hunter Substation Replacement Project. Hunter Substation serves approximately 4,700 customers and was commissioned in the early 1960’s. The new substation will be built using new industry standard technologies to improve system reliability while meeting the existing power demands, supporting future development in the area, and maintaining power reliability.

Capital Improvement Plan Investments

	Electric Capital Investments (in millions)					Total
	Adopted 23-24	-----Planning Purposes----- 24-25	25-26	26-27	27-28	
Overhead	\$ 8.2	\$ 9.0	\$ 10.4	\$ 10.3	\$ 11.0	\$ 48.9
Underground	14.1	14.1	16.3	15.0	15.6	75.1
Substation	13.0	11.3	14.4	15.1	15.9	69.7
Recurring / Obligation to Serve	14.4	15.6	16.6	17.7	18.9	83.2
System Automation	7.0	7.3	7.8	8.2	8.3	38.6
Total	\$ 56.7	\$ 57.3	\$ 65.5	\$ 66.3	\$ 69.7	\$ 315.5

Proposed Electric Rate Increase for Residential Customers

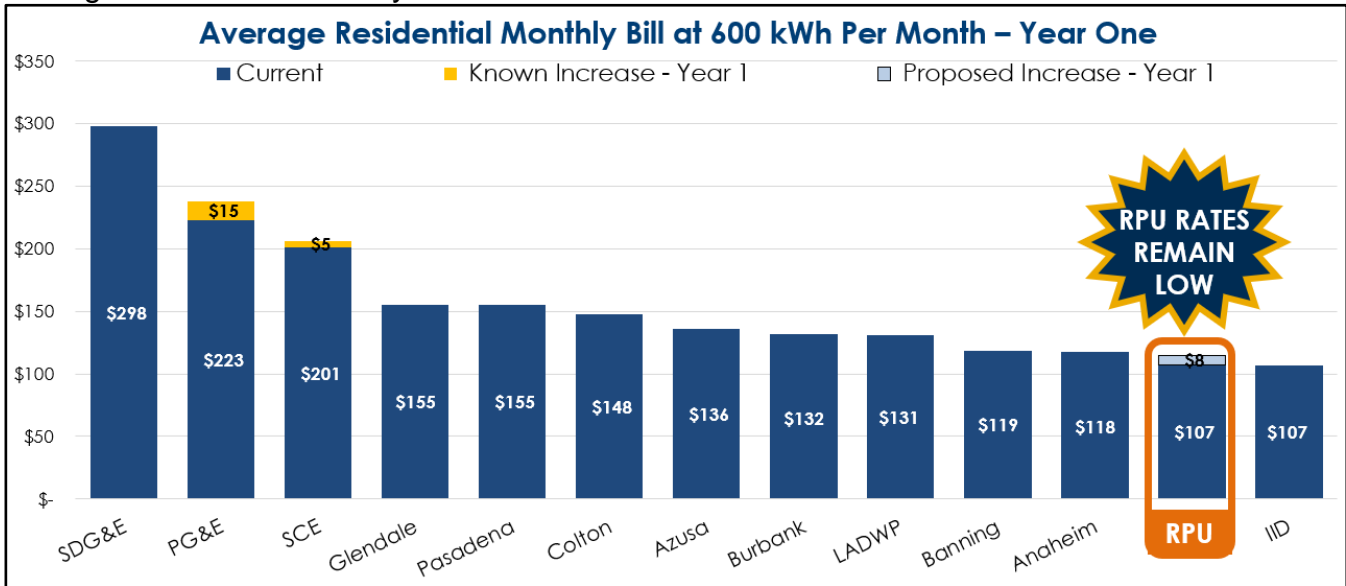
For a typical residential electric customer using on average 600 kWh per month with an average month bill of \$107, the estimated average monthly bill increase in year 1 is \$7.97, while the electric rate increase will be an estimated \$0.21 per day in each year of the rate plan. Rate increases and associated bill impacts will vary by customer class and consumption levels.

Sample Average Rate Increase for Residential Customer

Customer Class	Avg kWh Usage	Year 1 % Increase	Average Years 2-5 % Increase
Residential	600	7.4%	5.0%

RPU’s electric utility rates will continue to remain competitive within the region. A typical residential electric customer using on average 600 kWh per month, would pay 88% more at Southern California Edison.

Average Residential Monthly Bill



Typical Commercial Electric Customer

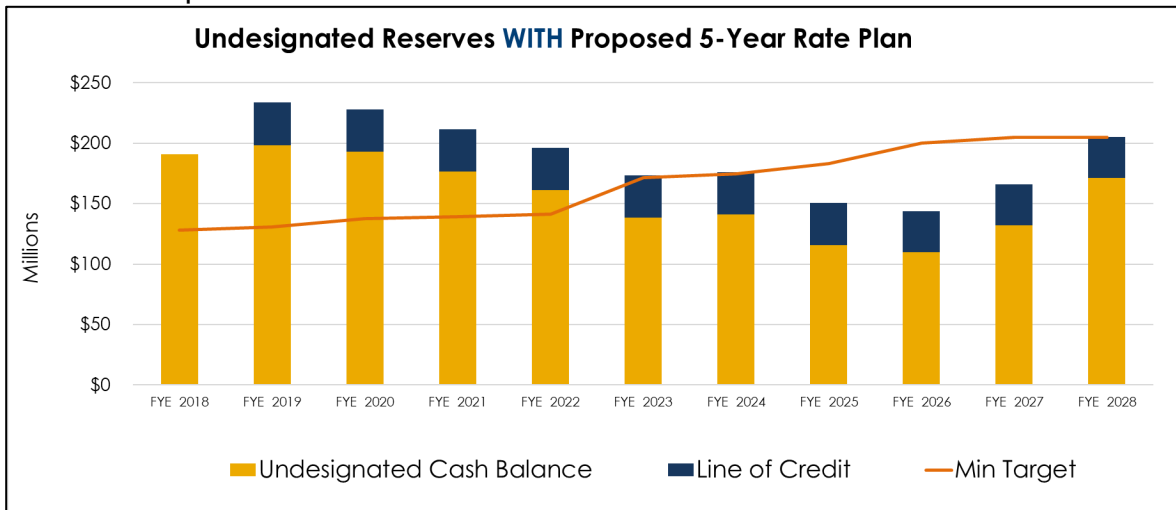
For a typical commercial electric customer using on average 1,750 kWh per month with an average monthly bill of \$342, the estimated average monthly bill increase in year 1 is \$9.12, while the electric rate increase will be an estimated \$0.43 per day in each year of the rate plan. Rate increases and associated bill impacts will vary by customer class and consumption levels.

Sample Average Rate Increase for Commercial Customer

Customer Class	Avg kWh Usage	Year 1 % Increase	Average Years 2-5 % Increase
Commercial Flat	1,750	2.7%	3.8%

The proposed five-year electric utility rate plan will fund future operating and capital costs, maintain reserve levels and financial metrics that comply with RPU’s fiscal and reserve policies, and maintain current bond ratings to keep borrowing costs for capital investments low. In order to keep the rate increases in the five-year electric rate plan as low as possible, the undesignated reserve balance combined with the line of credit does fall below minimum target reserve levels prior to returning to above minimum target reserve levels within the timeframe required by the reserve policy.

Reserves With Proposed Five-Year Rate Plan



SHARE Program Improvements

RPU established the Sharing Households Assist Riverside’s Energy (SHARE) program in 1989 to provide low-income residents with utility bill assistance. The SHARE program income qualification is set at 250% of the Federal poverty income guidelines and the number of people in the household. For assistance, call (951) 782-0330 or visit the Casa Blanca Customer Resource Center to speak with a representative in person.

SHARE assists 4,880 electric customers with monthly electric bill assistance as well as a \$250 annual credit for either deposit or disconnection payment assistance.

Proposed increases to the SHARE monthly credit

Year	Monthly Electric Credit
As of January 1, 2023	\$16
Proposed for January 1, 2024	\$20
Proposed for July 1, 2025	\$24
Proposed for July 1, 2026	\$28
Proposed for July 1, 2027	\$29
Proposed for July 1, 2028	\$30

The electric utility’s low-income assistance program is included in the annual electric utility public benefits fund budget as funded by customer donations and the monthly public benefits charge.

Community Outreach Meetings

Three regional City sponsored utility five-year rate plan community outreach events took place. In addition, several other presentations were provided between May and June 2023.

Event	Date
Greater Riverside Chamber of Commerce (GRCC)	May 25, 2023
Building Industry Association (BIA)	June 7, 2023
Residents for Responsible Representation (RRR)	June 14, 2023
Downtown Area Neighborhood Alliance (DANA)	June 19, 2023
Neighbors of the Wood Streets (NOWS)	July 13, 2023
Neighbors Better Together (NBT)	June 25, 2023

City Sponsored – Orange Terrace Center Ballroom	July 31, 2023
City Sponsored – La Sierra Senior Center Ballroom	August 3, 2023
City Sponsored - Bobby Bond/Cesar Chavez Community Center Auditorium	August 8, 2023

Community Outreach through Social Media and Webpage

Social media for the proposed rates for electric (water and trash) resulted in 75,094 impressions from July 2023 to August 9, 2023. Impressions are defined as the total number of times the content was seen. A total of 4,032 engagements for electric (water and trash) also took place from July 2023 to August 9, 2023. Engagements reflect the number of interactions with the content including comments or shares. The proposed five-year rate plan has been posted 24 hours a day, 7 days a week on the City website (<https://www.riversideca.gov/proposed-rates>) along with staff reports, presentations, calendar/timeline of events and other related resources.

Timeline

Action	Date
Board of Public Utilities Recommend City Council Conceptually Approve	June 12, 2023
City Council Conceptual Approval	June 27, 2023
Board of Public Utilities Fiscal Impact Update Regarding Alternative Rate Scenarios	July 10, 2023
Mailed Notice of Public Hearing (at City Council)	July 27, 2023
Community Meetings at Community Centers	July 31, August 3 and 8, 2023
Board of Public Utilities Ten Year Capital Improvement Plan Update	August 14, 2023
Board of Public Utilities Public Hearing and Consideration	August 28, 2023
City Council Public Hearing and Consideration	September 19, 2023
Proposed Effective Date	January 1, 2024

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 6 - Infrastructure, Mobility, & Connectivity**, and **Goal 6.5** – Maintain, protect, and improve assets and infrastructure within the City’s build environment to ensure and enhance reliability, resiliency, sustainability, and facilitate connectivity.

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The Electric Cost of Service Analysis and Rate Design Project is transparent and developed with our customers’ and the community’s wellbeing as a top priority.
2. **Equity** – The Electric Cost of Service Analysis and Rate Design Project includes an equitable allocation of costs among customer classes which is incorporated into the resulting rate design recommendation.
3. **Fiscal Responsibility** – The Electric Cost of Service Analysis and Rate Design Project incorporates a forecasted revenue requirement that includes operating and capital

expenditures funded by the prudent use of rate revenue, bond proceeds, and reserves, and demonstrates RPU’s commitment to responsible management of financial resources.

4. **Innovation** – The Electric Cost of Service Analysis and Rate Design Project includes the Electric Utility Rate Trend Study that evaluates emerging rate structures, technologies, and trends and how they may apply or be implemented by RPU.
5. **Sustainability & Resiliency** – The Electric Cost of Service Analysis and Rate Design Project will design future rates for a five-year period to equitably recover costs while maintaining the financial health of RPU.

FISCAL IMPACT:

Additional annual revenue over the five-year period averages \$54.6 million per year for each of the next five years. This revenue is essential to finance construction of new infrastructure, operations and maintenance, and meet fiscal policy requirements. Not making these necessary investments now will result in increased costs to future ratepayers and undermine generational equity. Inadequate preservation of our infrastructure through regular system repair and maintenance will burden future generations with even higher costs and potentially compromise the reliability and quality of our electric services. Annual rate increases are proposed to be implemented in January 2024, January 2025, January 2026, January 2027, and January 2028.

The total estimated cost for the proposed changes to the electric low-income programs (SHARE) are estimated to be \$264,000 annually in year 1 and up to \$924,000 annually by year 5, which will be funded from available public benefit funds and included in future budgets.

Prepared by: Carlie Myers, Utilities Assistant General Manager/Business and Customer Services
Approved by: Todd M. Corbin, Utilities General Manager
Approved by: Rafael Guzman, Assistant City Manager
Approved as to form: Phaedra A. Norton, City Attorney

Certifies availability of funds: Edward Enriquez, Assistant City Manager/Chief Financial Officer/City Treasurer

Attachments:

1. Board Resolution
2. Proposed Electric Rate Schedules
3. Electric Cost of Service Study
4. Notices of Public Hearing
5. Cash Reserve Policy presentation from June 26, 2023
6. Alternative Rate Scenarios presentation from July 10, 2023
7. CIP presentation from August 14, 2023
8. Presentation