

Agenda Report

June 4, 2012

TO: Honorable Mayor and City Council

THROUGH: Municipal Services Committee (Special Meeting, June 4, 2012)

FROM: Water and Power Department

SUBJECT: AMENDMENTS TO THE LIGHT AND POWER RATE ORDINANCE, CHAPTER 13.04 OF THE PASADENA MUNICIPAL CODE TO INCREASE POWER DISTRIBUTION RATES FOR ALL CUSTOMER GROUPS

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed amendments to the Light and Power Rate Ordinance are exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15273 (Rates, Tolls, Fares, and Charges);
2. Approve the recommended increase to the power distribution rates for all customer groups equally to generate an additional \$3.75 million annually, thereby increasing the overall Power Fund operating revenues by 2.3%; and
3. Direct the City Attorney to prepare an amendment to Chapter 13.04 of the Pasadena Municipal Code to increase the distribution charge to all customer groups.

BACKGROUND:

The Light and Power Rate Ordinance sets the rates and charges for electric system customers. Electric rates charged to customers are comprised of four separate components, namely 1) distribution and customer charge, 2) energy charge including power cost adjustment charge ("PCA"), 3) transmission services charge ("TSC"), and 4) public benefit charge ("PBC"). The energy and transmission rates and PBC include variable components which the Water and Power Department ("PWP") is authorized to adjust in response to increased costs associated with energy and transmission and the budget approved by City Council for public benefit programs. Increases in the distribution and customer component of the electric rate structure require City Council approval.

The PCA is added to the energy charge and is calculated based on a formula established in the Light and Power Rate Ordinance. The PCA may be adjusted to ensure that adequate funds are available to fund energy costs and maintain target reserve levels. For example, adjustments may be in response to fluctuations in market prices for energy and natural gas, increased costs for renewable energy or regulatory requirements for emissions. There have been four adjustments to the PCA since October 1, 2007 (including a decrease on October 1, 2009) for a net increase of \$0.0125 per kWh.

The TSC is also determined by a formula established in the Light and Power Rate Ordinance. The formula establishes a rate to ensure that transmission costs and revenues are balanced in compliance with PWP's obligations as a Participating Transmission Owner ("PTO") in the CAISO. The TSC was reduced on July 1, 2006 after PWP joined the CAISO in 2005 and has not had further adjustment.

The PBC is calculated based on determinations set forth in the Light and Power Rate Ordinance. The rate will adjust based on the budget for public benefit programs as defined in the Ordinance and approved by the City Council. The most recent adjustment to the PBC was effective in December 2007.

The recommended fiscal year 2013 Power Fund Budget includes an increase of \$3.75 million in distribution related costs due to increases in personnel costs (Public Employee's Retirement System and medical), materials and supplies, internal service charges and other operating expenses. PWP has implemented efficiencies in other programs to minimize the necessary increase, including deferral of hiring for vacant positions and delaying the purchase of vehicles, tools and equipment. To offset the increased operating costs, PWP is proposing to increase the power distribution rates for all customer groups to generate an additional \$3.75 million annually, thereby increasing the overall Power operating revenues by 2.3%.

The power distribution rates have not been changed since October 2007. PWP is in the process of conducting an electric cost-of-service study to ensure recovery of revenue requirements and to address ongoing changes taking place in the electric utility industry. This study may result in additional changes in rates, although the outcome is uncertain at this time. The recommended rate increase for fiscal year 2013 will provide the necessary revenue to ensure sufficient net income to meet the Electric utility's obligations to fund operating expenses and projected funding requirements for capital investment.

The *system-wide average* rate adjustment results in a monthly increase of approximately \$1.50 per 500 kWh of energy used. However, the distribution component of the bill is a higher percentage of the total bill for customers with low energy usage. As a result, the average monthly bill impact to a typical residential customer using 500 kWh is approximately \$2.52. The table below shows the estimated average monthly bill impacts to residential customers using 500, 1,000, and 2,000 kWh monthly.

kWh Usage per month	Monthly Distribution Charge		Average Monthly Bill		Average Monthly Increase	
	Current	Proposed	Current	Proposed	\$	%
500	\$ 33.45	\$ 35.97	\$ 83.94	\$ 86.46	\$ 2.52	3.0%
1,000	\$ 62.77	\$ 67.50	\$163.75	\$168.48	\$ 4.73	2.9%
2,000	\$ 83.29	\$ 89.57	\$285.24	\$291.52	\$ 6.28	2.2%

COUNCIL POLICY CONSIDERATION:

The proposed recommendations are consistent with the City Council's goals to maintaining fiscal responsibility and stability, improve, maintain, and enhance public facilities and infrastructure, and increase conservation and sustainability.

ENVIRONMENTAL ANALYSIS:

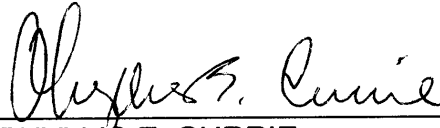
The proposed amendments to the Light and Power Rate Ordinance have been determined to be exempt from CEQA per Section 15273 (Rates, Tolls, Fares, and Charges). Under Section 15273, CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or other charges by public agencies which the public agency finds are for the purpose of:

1. Meeting operating expenses, including employee wage rates and fringe benefits,
2. Purchasing or leasing supplies, equipment, or materials,
3. Meeting financial reserve needs and requirements,
4. Obtaining funds for capital projects, necessary to maintain service within existing services areas, or
5. Obtaining funds necessary to maintain such intra-city transfers as are authorized by city charter.

FISCAL IMPACT:

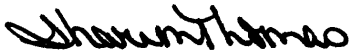
It is anticipated that this action will result in approximately \$3.75 million in additional annual power distribution revenues and will be used to offset the electric system's operating costs. The impacts of the proposed rate increase are included in the recommended fiscal year 2013 Power Fund budget and were discussed during the presentation at the Special Joint Meeting of the City Council/Finance Committee on May 21. The results of the electric cost-of-service study are uncertain at this time, and the recommended increase for fiscal year 2013 will provide the necessary revenue to ensure sufficient net income to sustain fiscal viability and funding for operating expenses and projected capital investment for the Power Fund. If approved, the new distribution rates will become effective for electricity bills issued after July 1, 2012.

Respectfully submitted,



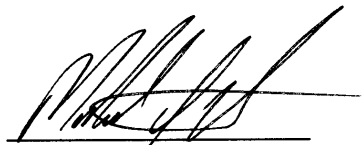
PHYLLIS E. CURRIE
General Manager
Water and Power Department

Prepared by:



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Water and Power Department

Approved by:



MICHAEL J. BECK
City Manager



May 31, 2012

Mayor Bill Bogaard
Pasadena City Council
100 North Garfield Avenue
Pasadena, CA 91109
VIA E-MAIL

Re: Pasadena Water and Power proposed rate increase

Dear Mayor Bogaard and City Council Members,

Shari Thomas of the Pasadena Water and Power Department provided information on the specifics of the proposed PWP rate increase to me this morning. She had called earlier in the week to let me know this would be on the agenda for Monday's City Council meeting.

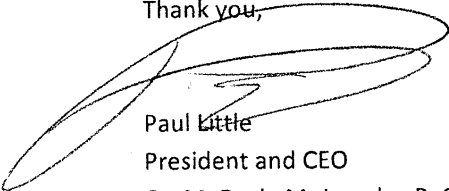
While I appreciate that Ms. Thomas provided a head's up on this item, having only three business days to assess the proposal, determine its impacts on our membership and the business community in Pasadena, as well as gauge the response of our members is clearly not enough time.

I would request that this proposal be tabled until such time as the Pasadena Water and Power Department has taken the time to explain the proposal to its various constituent groups, including residents and businesses.

While the increase may be well justified and appropriate, none of us has had appropriate time to research the proposal, gain input from our varied and various constituents and assess the impact it may have on our local economy.

The Pasadena Chamber of Commerce requests you defer any decisions on the proposed rate increase until everyone who will pay these increases has a chance to consider, assess and provide input.

Thank you,



Paul Little
President and CEO

Cc: M. Beck, M. Jomsky, P. Currie, S. Thomas