

Agenda Report

November 2, 2015

TO: Honorable Mayor and City Council
THROUGH: Municipal Services Committee (October 27, 2015)
FROM: City Manager
SUBJECT: AMEND THE LIGHT AND POWER RATE ORDINANCE TO ESTABLISH AN ECONOMIC DEVELOPMENT RATE SCHEDULE

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is not a project subject to the California Environmental Quality Act ("CEQA"), as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project; and,
2. Direct the City Attorney to prepare an amendment to Pasadena Municipal Code ("PMC") Chapter 13.04, the Light and Power Rate Ordinance to include an Economic Development Rate schedule as described herein.

MUNICIPAL SERVICES COMMITTEE RECOMMENDATION:

At the October 27, 2015 meeting, the Municipal Services Committee ("MSC") approved staff recommendations. As requested by MSC, additional information has been provided regarding the typical electrical usage of current customers in the classifications that would qualify for the proposed economic development rate incentives in Attachment A.

BACKGROUND:

Pasadena's Economic Development Strategic Plan and subsequent Economic Development Task Force report recommended that the City "provide utility incentives or flexible payment terms to targeted job producers that upgrade outdated facilities." As a result, staff has considered various options that would allow the City to leverage its municipal utility, Pasadena Water and Power ("PWP"), to help meet certain economic development goals without adversely impacting other PWP customers. The intent is to allow certain eligible businesses the opportunity to apply for either reduced fees for electric utility infrastructure upgrades or reduced electric rates for a limited start-up period.

Qualifying Criteria for Economic Development Incentives

In order to qualify for the proposed economic development incentives, new and existing commercial customers must meet eligibility criteria including the type of business, the need for building or electrical service improvements, and the size of electrical load being added. The qualifying guidelines are narrowly focused to meet specific goals including encouraging innovation, research and development-oriented businesses, and support the rehabilitation of older structures. Over time, the incentive will encourage infrastructure investment in older buildings that are under-utilized or whose owner's may have resisted energy consuming tenants due to a structure's limited power capacity. With these improvements, the City benefits from upgraded buildings and higher quality of employment they can accommodate.

Type of Eligible Business

Early this year, the City Council approved a first year business license discount for certain new businesses. The criteria for the one year discount focused on attracting/retaining job producing companies that typically do not make location decisions based on Pasadena's consumer base and could easily move to another city.

The proposed utility incentives would use the same North American Industry Classification System ("NAICS") categories that City Council approved for the Business License incentive. These selected categories currently used by the City are: Manufacturing (31-33), Information (51), Scientific, Technical, and Professional Services (54), and Construction (23). These industry categories represent strengths in the Los Angeles County economy (design, engineering, technology) and are top contenders for job growth in Pasadena. In the case of the utility incentive, staff also recommends an added allowance for restaurants (NAICS #722511 or 722110). This particular use often triggers more expensive upgrades to building systems, especially if the previous use was not food services related.

Building or Electrical Service Improvements

The proposed utility incentives shall only be available to those eligible customers that must upgrade existing buildings and/or the electrical service interconnection thereto.

Size of Additional Electric Load

In order to reduce administrative burden for small projects with limited economic benefit and relatively small potential incentive amounts, the proposed utility incentives shall only be available to customers adding new or incremental electric demand projected to be 50 kilowatts ("kW") or more. For perspective, some PWP's non-residential customers with loads of 50 kW or more include and many full service restaurants, medical labs and research facilities. For reference, examples of demand for typical homes range from 23-46 kW and the typical businesses using less than 50 kW demand are convenience stores, boutique shops, hair salons and small offices.

Proposed Economic Development Rate Schedule

It is recommended that the Light and Power Rate Ordinance be amended to include economic development incentives for new commercial customers or expanded services by existing customers under specified power use thresholds. The proposed “Economic Development Rate” would be available to new and existing medium and large commercial and industrial customers who meet the Economic Development Rate Qualifying Criteria. The proposed rate would provide one of two discount options to eligible PWP retail electric customers as follows:

- **Option 1** – An up front discount on labor and administrative costs for work performed by PWP staff (not contractors) to install a new or upgraded interconnection from the customer’s meter to PWP’s electric distribution system. These costs are charged to the customer as specified in Regulation 21, *Electric Service Requirements*. The maximum discount for each customer would be \$200 per kilowatt of projected incremental load or \$100,000, whichever is less; or,
- **Option 2** – A discount on the customer’s otherwise applicable electric rates, including only the Energy Charges, Transmission Charges, and Distribution Charges associated with the new or incremental load, up to a maximum of \$100,000 over three years as follows:
 - Year 1 – 20% discount off the electric charges
 - Year 2 – 10% discount off the electric charges
 - Year 3 – 5% discount off the electric charges

For existing customers, the rate discount will be prorated to reflect only the incremental load that qualifies for the Economic Development Rate.

The Economic Development Rate schedule will include the following special conditions:

- Customer must apply to take service under this schedule, and specify which discount option is desired.
- Customer must meet Economic Development Rate Qualifying Criteria as determined by the City’s Economic Development Manager.
- Customer must have new or incremental electric service demand expected to exceed 50 kW within the first year of taking service under this rate. For existing customers, the projected incremental demand must be a minimum of 50 kW or 10% of existing demand, whichever is greater.
- Customer must pay 100% of electrical interconnection costs, after applicable discounts, prior to commencement of electrical construction work.
- Discounts are limited to a maximum of \$100,000 for each customer account taking service under this rate.
- Customer is required to enter into a contract with the City to take service under this rate schedule.

The Economic Development Rate schedule will have a sunset provision included. It will be offered on a first-come first-served basis for three years (from the effective date of

the authorizing ordinance) or until cumulative estimated discounts reach \$1 million, whichever comes first.

Customers will be required to apply for service under the proposed Economic Development Rate Schedule and, if approved, enter into a contract with the City in order to ensure the customer performs all actions necessary to qualify for the proposed discounts.

Application Process

Through an application process, the City will confirm customer and project eligibility and identify all the specific upgrades that improve the quality and reliability of private building systems. The City's Economic Development Manager will evaluate the applications to determine whether they meet the proposed Economic Development Rate Qualifying Criteria described herein. The Water and Power Department shall determine whether the project meets all other requirements and special conditions set forth in the proposed Economic Development Rate schedule. The City's determination with respect to qualification of a given customer or project shall be final.

First Source Program

Pasadena's First Source hiring program (PMC Chapter 14.80) was established to encourage local hiring for new development projects that receive City financial assistance. This staff report focuses on incentives to encourage power infrastructure upgrades that will lead to future job growth and does not anticipate an additional level of requirements for local hire. The labor related to the install of new or upgraded connections to PWP's electric distribution system is conducted by PWP staff and/or approved subcontractors.

COUNCIL POLICY CONSIDERATION:

The recommended Economic Development Rate is consistent with recommendations in the Pasadena's Economic Development Strategic Plan, the subsequent Task Force report, and the City Council's goals to:

- Support and promote the quality of life and local economy;
- Maintain fiscal responsibility and stability; and,
- Improve, maintain and enhance public facilities and infrastructure.

ENVIRONMENTAL ANALYSIS:

The proposed amendment to the Light and Power Rate Ordinance to include an economic development rate schedule is a government fiscal activity that would not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed action is not a "project" subject to CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines. Since the action is not a project subject to CEQA, no environmental document is required.

FISCAL IMPACT:

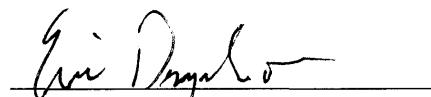
The proposed Economic Development Rate may reduce electric revenues from qualifying new customer load by a total of up to \$1,000,000 over a three- to five-year period, depending upon the amount and pace of customer participation. The proposed incentive rate schedule is expected to encourage new customer load that otherwise would not have occurred, which will bring additional revenues to the Light and Power Fund that offset costs for all customers. Thus, it is anticipated that there will be no adverse impact to PWP's overall electric customer base (e.g., no rate increases will result from this program). In addition, the City would benefit from the new and expanded businesses, jobs, and improvements to existing infrastructure and building stock as a result of the economic development stimulated by the Economic Development Rate incentives.

Respectfully submitted,



ERIC R KLINKNER
Interim General Manager
Pasadena Water and Power

Prepared by:



Eric Duyshart
Economic Development Manager
Office of the City Manager

Concurred by:



Steve Mermell
Assistant City Manager

Approved by:



MICHAEL J. BECK
City Manager