

Agenda Report

June 10, 2019

TO: Honorable Mayor and City Council
FROM: Water and Power Department
SUBJECT: HOLD A PUBLIC HEARING AND APPROVE THE RECOMMENDED ADJUSTMENTS TO THE ELECTRIC RATES AND THE ELECTRIC UTILITY ASSISTANCE PROGRAM

RECOMMENDATION:

It is recommended that the City Council:

- 1) Find that the Public Hearing for the recommended adjustments to the electric rate structure is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15273 (Rates, Tolls, Fares, and Charges);
- 2) Open a public hearing to receive public comment on the recommended adjustments to the electric rates and amendments to the Electric Utility Assistance Program to be effective July 1, 2019, or as soon as practicable thereafter:
 - a) Adopt and implement new fixed "Grid Access Charge" for all customers to generate annual revenue of approximately \$10.3 million;
 - b) Amend the Electric Utility Assistance Program ("EUAP") to: (i) to increase the basic benefit from \$7.50 per month to \$10.00 per month; and, (ii) change the low-income program eligibility requirements as described herein.
- 3) Direct the City Clerk to report on written comments received from the public;
- 4) Close the Public Hearing;
- 5) Approve the aforementioned Recommended Electric Rate Increases; and
- 6) Direct the City Attorney to prepare an amendment to the Light and Power Rate Ordinance ("Ordinance") implementing the changes to the electric rates described herein.

EXECUTIVE SUMMARY:

The Pasadena Water and Power Department ("PWP"), like other electric utilities in California, is operating in a rapidly changing business environment driven by customers' ability to generate and store their own electricity, increasing renewable energy mandates from the State of California and declining retail sales. Customers are increasingly pursuing self-generation and storage technologies that reduce their need

for delivered electricity and dependency on the utility. As a result, PWP's retail sales are declining and the utility is recovering less revenue from volumetric electric rates than is required to cover its fixed costs of operations and for critical infrastructure investment.

To remain viable in the evolving electric industry, rate designs must reflect changing customer needs. While conservation-minded consumers and efficient technology are encouraging purchase of less electricity, customers' dependence on PWP as the 'electricity provider of last resort' remains constant. This means PWP must maintain the necessary infrastructure and electric supply sources at all times to meet its customers' maximum potential power demands, even as their overall electricity usage declines.

In order to maintain a reliable electric system, PWP incurs fixed costs such as, but not limited to: maintaining electric distribution and back-up power generation systems, labor, and customer support services. As energy sales volumes have steadily declined over the last ten years, PWP is recovering less revenue from volumetric electric rates than is required to cover its fixed costs. Additionally, customers have the ability to inject their excess generation into PWP's electric system and draw it back at the time of their choosing. To accommodate this new practice of two-way electricity flow, the electric system requires additional investments in equipment and technology.

In order to mitigate the under-collection of fixed costs resulting from declining sales, PWP is proposing a rate plan that will enhance recovery and generate sufficient net income to support ongoing operations and required capital investment in the electric system. The plan includes a \$0.0075/kWh increase in the Power Cost Adjustment ("PCA") rate pursuant to Pasadena Municipal Code ("PMC") section 13.04.173 and a recommended new monthly fixed "Grid Access Charge" rate component to recover the unavoidable fixed costs associated with the distribution and generation infrastructure and related core services necessary to provide electricity reliably. The PCA increase will generate an additional \$7.8 million annually and the recommended Grid Access Charge will generate \$10.3 million annually to meet a portion of PWP's current fixed distribution costs. While these revenues will not fully recover all of PWP's fixed costs with fixed rates at this time, this approach will better align revenues with changes in customers' electricity use and offset the impacts associated with reduced electricity consumption.

The anticipated combined additional revenues of \$18.1 million from the PCA increase and the recommended Grid Access Charge will still fall short of Fiscal Year ("FY") 2020 budgeted distribution and energy revenue requirements by approximately \$6.8 million annually. This gap is expected to be filled by greater internal efficiencies and non-retail revenues.

To reduce the impact of increased cost of electricity for low-income customers, PWP is recommending higher qualifying income limits (so that more customers can qualify) and an additional \$2.50 per month benefit effective July 1, 2019, or as soon as practical after the ordinance amendment takes effect.

BACKGROUND:

The increasing focus on energy efficiency and customers' reliance on self-generation and storage systems such as solar panels, battery storage, fuel cells, and micro turbines have resulted in about a 16.5% decline in retail sales over the past ten years. Solar and battery storage have enabled customers to generate electricity for personal use and sell excess generation to the power grid through agreements with PWP.

For these customers, electric utilities like PWP become the backup power source and the buyer of excess generation. In addition, though customers' overall use of PWP's distribution system may decline, their peak demand in the evening remains high. Therefore, the system must continue to be maintained and made available for these customers when they need to draw power due to insufficient self-generation. The distribution system also provides reliable power for customers that do not self-generate, and equitable recovery of costs to maintain and invest in the system should be shared by all customers.

However, despite selling less electricity, the utility has the same obligation to maintain the distribution system to provide electricity for all customers at all times. While variable purchased power costs may decrease with reduced energy consumption, personnel, electric system-related operations and maintenance, call center and customer service and debt service costs remain fixed or in some cases, continue to rise. The revenues generated from the current predominantly volumetric rate structure have become insufficient to recover operating costs and support PWP's growing capital investments.

To address these concerns, PWP is recommending changes to electric rates that: (1) reflect the evolving needs of customers; and, (2) ensure sufficient collection of funds to ensure a reliable electric system for the long term.

Infrastructure and Energy Costs Revenue Requirements

During the preparation of the FY 2020 Operating Budget, staff implemented several measures to minimize expenses. However, flat or decreased retail sales are expected to continue while the costs of operations and required capital investment are increasing. Although variable costs may decrease with reduced sales, fixed costs remain unchanged or will increase. The projected FY 2020 retail sales revenues at current electric rates are insufficient to recover increased operation and maintenance costs and support planned capital investment in the electric system. As summarized in Table 1, projected revenues from existing Distribution rates result in a \$12.3 million shortfall in FY 2020, and projected revenues from the existing Energy Service Charge result in a \$12.6 million shortfall. Additional details on costs and revenues may be found in Attachment 1.

Table 1: FY 2020 Net Revenue Requirement – Distribution and Energy (in million \$)

	Distribution (Infrastructure) & Customer	Energy (Commodity)
Cost of Service		
Operations & Maintenance and Energy Costs (Excluding Depreciation and Interest)	\$42.5	\$90.8
Debt Service Costs (Principal and Interest)	\$10.5*	\$11.7
Pay-go Capital Requirements (Funded from Rate Revenues)	\$30.5	\$4.0
Total Cost of Service	\$83.5	\$106.5
Non-Rate Revenues	\$1.7	\$0.8
Net Revenue Requirement	\$81.8	\$105.7
Revenues from Current Rates	\$69.5	\$93.1
Shortfall	(\$12.3)	(\$12.6)

* All existing debt service in this category is associated with funding Distribution infrastructure.

Financial stability of the Power Fund requires that new, sustainable revenues be realized along with continued assertive cost containment.

Recommended New “Grid Access Charge”

PWP recommends the implementation of a new monthly fixed Grid Access Charge to be effective July 1, 2019 to generate new revenues of approximately \$10.3 million. This monthly charge is intended to improve recovery of fixed costs, ensure compliance with Proposition 26, and is designed to collect the distribution cost relative to each customer class. The recommended fixed charge does not recover the entire fixed revenue requirement but is a step towards a rate structure that will be better aligned to match revenues with fixed costs. Table 2 summarizes the recommended monthly Grid Access Charge and the projected revenues to be generated from each customer class. Additional details on cost allocations and rate determinations may be found in Attachment 2.

Table 2: Recommended Grid Access Charges

Customer Class	Recommended Monthly Charge	Projected Annual Revenue*
Residential	\$4.50	\$3.1 million
Small Commercial	\$17.00	\$1.5 million
Medium Commercial	\$250.00	\$2.7 million
Large Commercial	\$1,500.00	\$3.0 million
Total		\$10.3 million

* Revenue allocations between classes based on existing distribution cost allocation factors

City Council approval is required for the adoption and implementation of the recommended Grid Access Charge.

Power Cost Adjustment Increase

Decreased electricity sales combined with increased costs for energy procurement have led to the need for a Power Cost Adjustment (“PCA”) rate increase. Short-term market prices for energy and natural gas fuel have been driven higher by intermittent natural gas shortages in the region along with regulatory uncertainty and pressure to retire fossil-fueled resources. Recovery of fixed costs associated with long-term contracts is hindered by reduced retail sales volumes. Recently-enacted Senate Bill 100 further enhanced the targets for renewable and zero-carbon resources. Consistent with PMC 13.04.173, PWP will increase the PCA component of the Energy Services Charge by 0.75¢ per kilowatt-hour (“kWh”) to generate an additional \$7.8 million annually. No City Council action is required to implement the PCA increase because it is a pass-through adjustment as authorized in the Light and Power Rate Ordinance. Nevertheless, in the interests of transparency, it is appropriate to draw the Council’s attention to this adjustment.

Customer Assistance Program

The Electric Utility Assistance Program (“EUAP”) was authorized by the City Council in March, 2006, establishing a “basic benefit” (monthly bill credit) of \$5 per month for income-qualified customers or those with qualifying medical devices, plus a bill credit equal to the Public Benefit Charge (“PBC”) for income-qualified customers meeting age or disability requirements. The City Council approved the current monthly basic benefit of \$7.50 in August 2009. Staff recommends that the basic benefit be increased to \$10.00 per month effective July 1, 2019, or as soon thereafter as the ordinance amendment may take effect. Funds are provided by the PBC.

The current EUAP income eligibility criteria approved by the City Council is established by the lowest income criteria used by the City’s Housing and Community Development Division for the Rental Assistance Program stated in Section 17.80.020 of the City Zoning Code. This criteria is inconsistent with that used by other utility agencies, including the Southern California Gas Company (“SoCal Gas”), whose income eligibility is determined annually by the California Public Utilities Commission’s (“CPUC”) Low-Income Oversight Board. This inconsistency creates challenges and additional burden for customers wishing to participate in various income-qualified programs jointly administered through PWP’s partnership with SoCal Gas. However, adopting the SoCal Gas qualifications would reduce the number of households with fewer than four people that would qualify for PWP’s income-qualified programs. Therefore, staff recommends that the rate ordinance be modified to use the higher of these two income qualification limits.

Table 3 compares the current income thresholds used by PWP with the recommended thresholds used by SoCal Gas. Staff does not anticipate a significant change in EUAP enrollment as a result of implementing the new thresholds. EUAP customers that would not qualify under the recommended new income limits would be grandfathered into the program (until their next verification, which happens every 3 years).

Table 3: Comparison of Qualifying Annual Household Income Levels (\$/year)

Household Size	1 person	2 people	3 people	4 people	5 people	6 people	7 people	8 people
PWP Current ¹	\$36,550	\$41,800	\$47,000	\$52,200	\$56,400	\$60,600	\$64,750	\$68,950
SoCal Gas ²	\$33,820	\$33,820	\$42,660	\$51,500	\$60,340	\$69,180	\$78,020	\$86,860
Recommended ³	\$36,550	\$41,800	\$47,000	\$52,200	\$60,340	\$69,180	\$78,020	\$86,860

¹ Based on lowest income criteria used by the City's Housing and Community Development Division for the Rental Assistance Program stated in Section 17.80.020 of the City Zoning Code. Table updated to reflect 2019 income requirements.

² Income eligibility criteria updated annually by the CPUC Low-Income Oversight Board

³ Greater of the two qualifying income levels

As of March 31, 2019, a total of 4,034 customers were participating in the EUAP, of which 1,923 customers received the \$7.50/month basic benefit and 2,111 customers received additional discounts under the EUAP Cares and EUAP Cares Plus programs. Assuming no significant change in enrollment, the increased benefit will result in an additional annual cost of \$121,020 to the PBC Fund. This additional expenditure is included in the recommended FY2020 budget and can be accommodated without increasing PBC revenues because funds will be available from declining customer rebate expenditures for solar and energy efficiency. The recommended amendments to EUAP will ease the bill impact of the recommended new Grid Access Charge and increase to the PCA for qualified low-income customers.

Table 4 summarizes PWP's recommended actions to be effective July 1, 2019, or as soon as practicable thereafter.

Table 4: Recommended Actions

Recommended Actions	Fiscal Impact
Implement a monthly fixed Grid Access Charge for all customers	Generate approximately \$10.3 million annually to improve fixed cost recovery and provide funding for ongoing maintenance and investment in the electric distribution system.
Increase the Power Cost Adjustment Charge ("PCA") for all customers	Generate approximately \$7.8 million of additional revenue to recover the cost increases of producing and procuring energy.
Increase the basic benefit from \$7.50 per month to \$10 per month and increase the income thresholds	Assuming no change in enrollment, the increased benefit will result in an additional annual cost of approximately \$121,020 to the PBC Fund.

Customer Bill Impact:

The recommended rate changes will have various impacts on customer bills based on customer class and the amount of energy used. Table 5 shows examples of the net impacts of the recommended Grid Access Charge, PCA increase, and the recommended suspension of the underground light & power surtax to residential and small commercial customers' bills at various levels of monthly energy use. The residential and small commercial customer classes comprise about 98% of PWP's

electric customer base. The impact of each recommended rate adjustment to the bill examples is further illustrated in Attachment 3.

Table 5: Examples of Bill Impact*

Residential Customers				
Monthly Usage (kWh)	350	500	750	1,000
Current Bill	\$61.64	\$105.25	\$177.88	\$239.43
Recommended Bill	\$67.03	\$110.19	\$182.11	\$243.35
Change (\$)	\$5.39	\$4.94	\$4.23	\$3.92
Change (%)	8.7%	4.7%	2.4%	1.6%
Small Commercial Customers				
Monthly Usage (kWh)	500	1,000	1,500	2,000
Current Bill	\$108.72	\$206.84	\$311.28	\$415.69
Recommended Bill	\$126.99	\$225.48	\$330.58	\$435.62
Change (\$)	\$18.27	\$18.64	\$19.30	\$19.93
Change (%)	16.8%	9.0%	6.2%	4.8%

* Current/Recommended Bill amounts shown reflect all taxes, fees, and surcharges.

The bill impact for income-eligible customers will be \$2.50 per month lower than that which is shown in Table 5.

Electric Rate Implementation Schedule

The revenues generated from the recommended Grid Access Charge and PCA increase effective July 1, 2019 are necessary to balance the recommended FY 2020 Operating Budget. Table 6 provides the timeline for which these actions would be incorporated into the FY 2020 Operating Budget adoption.

Table 6: Recommended Schedule and Timeline

Date	Action Item
April 9, 2019	MSC Update (Information item)
April 24, 2019	Special MSC Meeting to request to set Public Hearing date
May 6, 2019	Set Public Hearing Date for Recommended Electric Rate Actions
June 10, 2019	PWP's Operating Budget presentation to the Joint City Council and Finance Committee
June 10, 2019	Public Hearing and City Council Rate Action; First Reading of the changes to Light and Power Rate Ordinance
June 17, 2019	City Council FY 2020 Operating Budget Adoption; Second Reading of the Light and Power Rate Ordinance
July 1, 2019	Effective date for the rate changes

COUNCIL POLICY CONSIDERATION:

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

ENVIRONMENTAL ANALYSIS:

The recommended electric rate changes are statutorily exempt from CEQA. Section 15273(a) of the State CEQA Guidelines identifies a statutory exemption for "Rates, Tolls, Fares, and Charges" and states (in part) that:

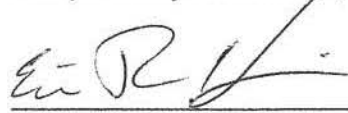
CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or their charges by public agencies which the public agency finds are for the purpose of:

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 service areas, or
5. Obtaining funds necessary to maintain such intra-agency transfers as are authorized by city charter.

FISCAL IMPACT:

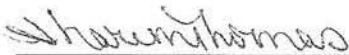
The recommended Grid Access Charge will generate additional annual revenue of approximately \$10.3 million, and the planned PCA increase will generate additional annual revenue of about \$7.8 million in the Light and Power Fund. The remaining estimated structural deficit for the Power Fund of \$6.8 million for FY2020 will be managed through internal efficiencies and the use of non-operating revenues. The EUAP change to increase benefit from \$7.50 per month to \$10 per month will result in an additional annual cost of approximately \$121,020 to the PBC fund.

Respectfully submitted,



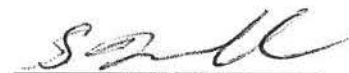
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Attachments:

- Attachment 1: Details on costs and revenues
- Attachment 2: Cost allocations and rate determinants
- Attachment 3: Impact of each rate adjustment to bill examples