

Agenda Report

June 2, 2014

TO: Honorable Mayor and City Council
FROM: City Manager
SUBJECT: PUBLIC HEARING FOR THE RECOMMENDED ELECTRIC RATE INCREASES AND CHANGES TO THE ELECTRIC RATE STRUCTURE

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the Public Hearing for Proposed Changes to the Electric Rates 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 Electric Rate Increases and Changes to the Electric Rate Structure to:
 - a. Increase the Electric Distribution and Customer Charges;
 - b. Adjust the Electric Distribution and Customer Charge rate structure; and
 - c. Adjust the residential time-of-use ("TOU") price and pricing periods;
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 Changes to the Electric Rate Structure; 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:

On May 5, 2014, the City Council established the date of June 2, 2014 to conduct a Public Hearing to receive public comment on the Recommended Electric Rate increases and Changes to the Electric Rate Structure. Pasadena Water and Power ("PWP") is recommending increases for each of the next three years to the Distribution and Customer Charges for all electric customers to be effective on July 1 for each year, beginning on July 1, 2014. The revenues from the Distribution & Customer charges account for about 32% of the operating revenues from electric rates. The recommended system average rate increases for each year are in Table 1.

Table 1

Recommended Electric Distribution and Customer Charge Rate Increases			
Effective Date	Average System Rate Increase	Annual Revenue Impact	Increase ¢ per kWh
July 1, 2014	2.7%	\$4.5 million	0.391¢
July 1, 2015	2.4%	\$4.4 million	0.387¢
July 1, 2016	2.2%	\$4.4 million	0.389¢

PWP is also recommending changes to the electrical rate structure to ensure equitable cost recovery from all customer classifications and address changes within the electric service industry and the way in which PWP customers consume energy.

Additionally, increases will be implemented during fiscal year ("FY") 2015 for the Energy Services Charge and Public Benefits Charge components of the electric rate. The projected increase to the Energy Services Charge, which includes the Power Cost Adjustment ("PCA") adder, will increase the average system electric rate by 4.9% and will be used to cover new debt service and anticipated increases in the cost of renewable and non-renewable energy and natural gas. The projected increase to the Public Benefits Charge will increase the average system electric rate by 0.7% and will be used to fund City Council approved energy efficiency, solar initiative and low income programs. These adjustments will be implemented based on formulas defined in the Ordinance and will not require separate action by the City Council. The combined impact of these increases and recommended rate adjustments is projected to be a 8.3% increase in the average system rate for FY2015.

Finally, there is a proposal to add economic development incentives for new commercial customers or expanded services by existing customers under specified conditions. Implementation of these incentives will require future City Council approval of a follow-up recommendation within 60 days.

BACKGROUND:

PWP completed a comprehensive cost-of-service study and rate design analysis for electric rates in June 2013. Burns and McDonnell Engineering Company, an independent engineering and consulting firm, provided professional cost-of-service and rate analysis throughout the study. On November 19, 2013 a special meeting of the Municipal Service Committee ("MSC") was held to provide an update on the study. On January 28, 2014 the MSC was presented with the electric rate proposal as an information item. On March 31, 2014 PWP presented a detailed workshop to the City Council on the proposed electric rate increases and changes to the electric rate structure.

Electric Rate Proposal

The recommended electric rate increases and changes to the electric rate structure are as follows:

1. Distribution and Customer Charge:

- a) Effective July 1, 2014, increase the annual operating revenues generated from the Distribution and Customer Charges for all customer groups by \$4.5 million, thereby increasing the overall average system electric rate by 2.7%.
- b) Effective July 1, 2015, increase the annual operating revenues generated from the Distribution and Customer Charges for all customer groups by an additional \$4.4 million, thereby increasing the overall average system electric rate by 2.4%.
- c) Effective July 1, 2016, increase the annual operating revenues generated from the Distribution and Customer Charges for all customer groups by an additional \$4.4 million, thereby increasing the overall average system electric rate by 2.2%.
- d) Effective July 1, 2014, create separate distribution and customer charges for single-family residential customers and multi-family residential customers and eliminate the \$2.00 monthly distribution charge credit for multi-family residential customers.

2. Demand Charge for Commercial Customers with Demand Meters:

Effective July 1, 2014 Implement a 4-month billing demand ratchet for all commercial customers with demand meters, and base the customer monthly demand charge on the highest demand in the past four months including the current month.

3. Time-of-Use Rates:

Effective July 1, 2014, adjust the residential TOU pricing periods as follows:

- Summer Period
 - On-peak Hours: 3:00 p.m. to 8:00 p.m.
 - Off-peak Hours: 8:00 p.m. to 3:00 p.m.
 - On-peak Price - 14.75¢; Off-peak - 4.75¢
- Winter Period
 - On-peak Hours: 3:00 p.m. to 8:00 p.m.
 - Off-peak Hours: 8:00 p.m. to 3:00 p.m.
 - On-peak Price - 11.15¢; Off-peak - 5.10¢

All TOU energy charge rates are subject to the PCA adder.

The separation of the Distribution and Customer Charges into two separate components is to reflect the true cost of serving each customer classification and ensure each customer pays a proportionate share of the cost to maintain the electric system based on usage. The other recommended adjustments will ensure true cost recovery and refine the rate structure to accommodate changes in the way energy is consumed by

PWP customers. The recommended Distribution and Customer Charges from Items 1 and 2 are listed in Table 2.

Table 2
Recommended Distribution and Customer Charges

<u>Customer Class</u> Rate Component	<u>Current</u> <u>FY 2014</u>	<u>Proposed Rates</u>		
		<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
<u>Residential</u>				
Customer Charge (monthly charge per meter)	\$6.02	\$7.76	\$8.01	\$8.29
Distribution Charge:				
First 350 kWh usage per month	Not	\$0.01500	\$0.01620	\$0.01740
Next 400 kWh usage per month	comparable	\$0.11650	\$0.12585	\$0.13518
All additional kWh usage per month	see Exhibit B	\$0.08500	\$0.09182	\$0.09863
<u>Small Commercial</u>				
Customer Charge (monthly charge per meter)	\$14.16-19.07	\$8.16	\$8.42	\$8.72
Distribution Charge (per kWh)	\$0.04475	\$0.05178	\$0.05594	\$0.06009
<u>Medium Commercial (Secondary Service)</u>				
Customer Charge (monthly charge per meter)	\$60.22	\$20.27	\$20.93	\$21.66
Distribution Charge (per KW)	\$10.89	\$13.54	\$14.63	\$15.71
<u>Medium Commercial (Primary Service)</u>				
Customer Charge (monthly charge per meter)	\$83.92	\$25.77	\$26.60	\$27.53
Distribution Charge (per KW)	\$10.54	\$9.48	\$10.24	\$11.00
<u>Large Commercial (Secondary Service)</u>				
Customer Charge (monthly charge per meter)	\$160.21	\$41.18	\$42.51	\$44.01
Distribution Charge (per KW)	\$10.86	\$13.46	\$14.54	\$15.61
<u>Large Commercial (Primary Service)</u>				
Customer Charge (monthly charge per meter)	\$183.93	\$46.69	\$48.19	\$49.89
Distribution Charge (per KW)	\$10.51	\$9.42	\$10.18	\$10.93

Economic Development Incentives

Incentives to encourage economic development are being proposed as part of the implementation of the Economic Development Strategic Plan and subsequent Task Force report. Implementation of these incentives would be subject to City Council approval of a follow-up recommendation within 60 days specifying the amount of the discount and details on the eligibility criteria.

The economic development incentives would provide one of two discount options to eligible customers as follows:

- Option 1 - A discount on labor and materials on work performed by PWP to connect the customer to Pasadena's electric system. These costs are charged to the customer as specified in Regulation 21, *Electric Service Requirements*; or,
- Option 2 - A discount on total electricity costs for the first three years of service for the new or expanded service only. The discount would be established for the first year, and then offered at a declining rate for the second year and the third year.

In order to qualify for the proposed economic development incentives, new and existing commercial customers must meet eligibility criteria, such as type of business, location, type of building, economic development impact, job creation, and size of load being added. It is envisioned that the qualifying guidelines would be narrowly focused to meet specific goals, such as encouraging innovation or research and development-oriented businesses, or involve the rehabilitation of historic structures. These criteria will be established in a forthcoming Economic Development Program Guideline or similar document.

Projected “Pass-Through” Rate Adjustments

Increases will be implemented during FY2015 for the Energy Services Charge and Public Benefits Charge components of the electric rate. The projected increase to the Energy Services Charge will increase the average system electric rate by 4.9% and will be used to cover new debt service and anticipated increases in the cost of renewable and non-renewable energy and natural gas. The projected increase to the Public Benefits Charge will increase the average system electric rate by 0.7% and will be used to fund City Council approved energy efficiency, solar initiative and low income programs. These adjustments will be implemented based on formulas defined in the Ordinance and will not require separate action by the City Council. The complete Electric Rate Schedule that would be in effect for FY2015 is included as Attachment A.

Attachment B contains more information regarding the impact of the proposed changes to the electric rates on the various customer classifications; including the impact on residential customers at various levels of energy consumption. Even with these recommended electric rate increases and changes to the electric rate structure, PWP’s rates will remain comparable to neighboring electric utilities. Attachment C contains bill comparisons using published rate information from the neighboring utilities.

Customer Outreach and Education

PWP staff has participated in several public meetings to educate residential and commercial customers about the recommended electric rate increases and changes to the electric rate structure. In addition to the outreach events and public meetings listed in Table 3, PWP presented information to the Municipal services Committee on November 19, 2013 and January 28, 2014, and a City Council workshop was held on March 31, 2014. PWP customer account managers have notified the fifty largest commercial customers by email, and there have been individual discussions with about fifteen large commercial customers, including specific bill impacts.

Table 3

Date	Location
April 16, 2014	Discussion with City Council Field Representatives
May 8, 2014	South Lake Business Improvement District
May 20, 2014	Chamber of Commerce Legislative Board Meeting
May 20, 2014	Environmental Advisory Commission
May 22, 2014	Community-wide Town Hall Meeting
May 27, 2014	Chamber of Commerce

In addition to the public discussions, information about the recommended rate adjustments has been widely available on PWP's website and social media outlets, including Facebook and Twitter. A "bill estimator" is available on the website that enables customers to input their own actual energy consumption to determine the approximate impact of the recommended rate adjustments. The bill estimator was made available at the community wide meeting on May 22, 2014 to assist those customers in attendance.

COUNCIL POLICY CONSIDERATION:

The revenues generated by the Recommended Electric Rate Increases and Changes to the Electric Rate Structure will enable PWP to remain aligned with the City Council goals to:

- Maintain fiscal responsibility and stability
- Improve, maintain and enhance public facilities and infrastructure
- Increase conservation and sustainability
- Ensure public safety

The recommended actions will ensure that PWP continues to meet the projected revenue requirements essential to meet debt service obligations, support ongoing operations including the Renewable Portfolio Standard, make the capital investments included in the Distribution System Master Plan, and support the Public Benefits Programs.

ENVIRONMENTAL ANALYSIS:

The proposed increases to the Electric Rates and changes to the Electric Rates Structure are statutorily exempt from CEQA. Section 15273 of the State CEQA Guidelines identifies a statutory exemption for "Rates, Toll, Fares, and Charges" and states (in part) that CEQA does not apply to the establishment, modification, structuring, or approval or 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:

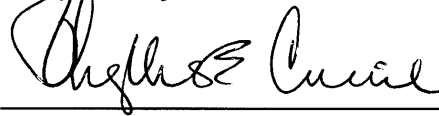
Based on projected electric sales and demand for each fiscal year 2015 through 2017 affected by the rate recommendations, the recommended adjustments to the Distribution and Customer Charges will generate additional net revenues as shown:

Net Revenue Increases from Distribution and Customer Charge Adjustments			
Rate	FY 2015	FY 2016	FY 2017
Distribution and Customer	\$4,451,032	\$4,393,271	\$4,384,593

The formula-based adjustment for the Energy Services Charge is estimated to generate additional annual net revenues of \$8.2 million and the formula-based adjustment for the Public Benefits Charge is estimated to generate additional net revenues of about \$1.2 million.

The recommended changes to the Electric Distribution and Customer Charge rate structure are intended to be revenue neutral to the Power Fund. The revised TOU rate structure and new economic development incentives will be implemented to ensure cost recovery for these programs with no adverse impact to the Power Fund and customers who do not participate in those programs.

Respectfully submitted,



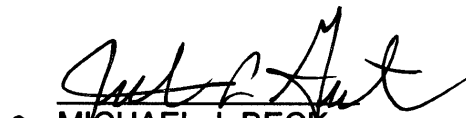
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Public Hearing on the Proposed Changes to the Electric Rates

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Attachments:

Attachment A – Proposed Electric Rate Schedule

Attachment B – Customer Impact of Proposed Changes to the Customer and Distribution
Charges and Rate Structure

Attachment C – Rate Comparison to Neighboring Utilities