

Agenda Report

June 4, 2018

TO: Honorable Mayor and City Council
FROM: Water and Power Department
THROUGH: Municipal Services Committee (May 22, 2018)
SUBJECT: ADOPT A RESOLUTION AUTHORIZING THE GENERAL MANAGER TO PROVIDE REBATES AND OTHER INCENTIVES TO ELECTRIC CUSTOMERS AS PART OF AN ELECTRIFICATION PROGRAM AND THE USE OF REVENUES FROM THE SALE OF LOW CARBON FUEL STANDARD CREDITS, PUBLIC BENEFITS CHARGE, ELECTRIC RATES, AND OTHER SOURCES TO FUND THE PROGRAM

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed resolution is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3); and
2. Adopt a resolution authorizing the General Manager of the Water and Power Department ("PWP") to provide rebates and other incentives to electric customers as part of an electrification program; and, fund the program through the use of revenues from the sale of Low Carbon Fuel Standard ("LCFS") credits, the Public Benefits Charge ("PBC"), electric rates, and other sources.

EXECUTIVE SUMMARY:

For decades, PWP has offered a wide variety of energy efficiency incentive programs designed to meet the environmental sustainability and energy efficiency goals adopted by the City Council as well as legislative and regulatory mandates. PWP also offers rebates and funding support for a number of transportation electrification incentives and demonstration projects. All of these programs are currently funded by PBC revenues.

The recommended resolution will provide authority to develop, implement, and administer an "Electrification Program" that includes a broad range of incentives and capital investments intended to encourage the use of electric vehicles, appliances, or equipment in lieu of fossil-fueled alternatives, thereby reducing the environmental impact while generating revenues to benefit PWP customers.

Funding for the Electrification Program will be expanded beyond the PBC Fund to include a number of sources such as revenues from sales of LCFS credits, fees for using City-owned electric vehicle charging stations, electric rate revenues, grants, and other applicable sources as authorized in the City's operating and capital budget.

BACKGROUND:

Electrification Program

At the April 10, 2018 Municipal Services Committee (“MSC”) meeting, staff presented an outline of the City’s Electric Vehicle Initiative that is underway to encourage broader use of plug-in electric vehicles for transportation as a means to support both environmental and economic goals. Transportation electrification offers the potential to reduce emissions of greenhouse gases and other air pollutants, reduce operating costs for vehicle owners including the City fleet, and increase PWP’s electricity sale revenues. PWP will secure additional renewable energy resources to meet the increased use of electricity resulting from electrification, thus magnifying the environmental benefits of transportation electrification.

The Electric Vehicle Initiative is part of a broader strategy being developed under the forthcoming Electrification Program to provide a range of programs and incentives that encourage the use of electricity in lieu of fossil fuels for a variety of purposes, such as space heating, commercial/industrial processes, cooking, and other appliances.

The Electrification Program will include rebates for customers that purchase electric vehicles or install electric vehicle charging equipment, heat pumps, or other electric appliances. In addition to encouraging private investment in charging infrastructure, the program will include the installation of more City-owned charging stations and implementation of a fee structure to recover the associated capital and operating costs. The program will include projects to demonstrate evolving technologies and will also implement incentives and electric rate changes over time that encourage off peak use of electricity. This will minimize adverse impacts on the electric grid and maximize the economic benefit to PWP customers. The Electrification Program will include developing consumer information, marketing materials, and direct interaction with commercial customers and vehicle fleet operators to explore and encourage electrification.

Revenue Sources

Funding for the Electrification Program will include a number of sources such as the PBC Fund, revenues from sales of LCFS credits, charges for using City-owned electric vehicle charging stations, electric rate revenues, grants, and other sources as authorized by the City Council in the City’s annual operating and capital budgets.

PBC Revenues. Pursuant to state law adopted under Assembly Bill 1890 (1996), Pasadena adopted a PBC rate in 1996 as part of the Light and Power Rate Ordinance (Pasadena Municipal Code Section 13.04.230) to ensure continued investment by utilities in various public purposes. Public Utility Code Section 385(a), states PBC rate revenues may be used to fund incentive programs and administrative costs for:

1. Cost-effective demand-side management services to promote energy-efficiency and energy conservation;
2. New investment in renewable energy resources and technologies;
3. Research, development, and demonstration (“RD&D”) programs for the public interest; and
4. Services and bill-payment support for low-income electricity customers.

Many Electrification Program investments and programs would qualify for PBC funding, including those that encourage off peak energy use, include "demand response" components, demonstrate advanced technologies for electric vehicle charging, or benefit low income customers.

LCFS Revenues. The City Council authorized PWP to participate in the LCFS program on December 11, 2017 to obtain marketable LCFS credits that generate additional revenues to support transportation electrification in Pasadena. The LCFS program, administered by the California Air Resources Board ("CARB"), uses a market-based cap and trade approach to lowering the greenhouse gas emissions from petroleum-based transportation fuels. The goal is to replace gasoline and diesel with low-carbon fuel alternatives such as electricity and renewable fuels. Under the LCFS program, CARB issues one LCFS credit for each metric ton of avoided greenhouse gas emissions associated with the use of electricity as a transportation fuel.

Pursuant to the LCFS Regulations promulgated by CARB, the proceeds derived from the sale of LCFS credits must be used to: (i) benefit current or future EV customers; (ii) educate the public on benefits of EV transportation; and/or, (iii) provide rate options that encourage off-peak charging to minimize adverse impacts to the electrical grid. These purposes clearly align with the intent of the Electrification Program and PWP will apply revenues derived from the sale of LCFS credits as the preferred source of funding to implement the Electric Vehicle Initiative.

For example, LCFS revenues may be used to provide rebates to PWP customers that purchase electric vehicles or chargers, or those that upgrade publicly-available and fleet charging infrastructure. These funds may also be utilized for the deployment of additional public access and fleet EV charging stations owned by the City.

Public Electric Vehicle Charging Fees. The City currently owns and operates a number of publicly available electric vehicle charging stations. A recommendation to amend the City's General Fee Schedule to include fees for the use of City-owned electric vehicle charging stations is forthcoming. Revenues from these fees will be used to offset costs of installing and operating this equipment as an essential element of the Electrification Program.

Electric Rate Revenues. The Electrification Program will yield additional electric sales and associated revenues. To the extent the program is successful in promoting off-peak electric use and avoiding the need to increase electric generation and distribution capacity to serve this load, the additional revenues will significantly outweigh added energy procurement costs. The resulting "net revenues" will help offset PWP's other electric system costs and thereby help to manage retail electric rates. While significant metering, communication, and billing system updates would be needed to drive desired electricity usage behavior changes through new rate structures, the same effect may be achieved through incentive programs outside of the rate structure. The cost of such programs may be funded, in part, by electric rate revenues.

Grants and Other Sources. Reducing environmental impacts through electrification is a broad policy objective for many local, state, and federal agencies. Thus, there are

many grants, rebates, vouchers, and other potential partnership opportunities to help offset costs associated with the Electrification Program. These will be pursued to the extent practical and advantageous to the City and PWP's electric customers.

COUNCIL POLICY CONSIDERATION:

The proposed resolution is consistent with the City's Climate Action Plan; the Urban Environmental Accords goals and the Power Integrated Resource Plan ("IRP") goals with respect to reducing greenhouse gas emissions and increasing the use of clean vehicles and renewable energy; and, the City Council's Strategic Planning goals to increase conservation and sustainability.

Furthermore, Senate Bill ("SB-350") requires utilities to consider a "Transportation Electrification Program" as a means to reduce greenhouse gas emissions. SB-350 mandates that utilities include a Transportation Electrification analysis in their IRP.

ENVIRONMENTAL ANALYSIS:

The resolution has been reviewed for compliance with the CEQA and has been determined to be exempt per Section 15061 (b) (3), the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. The proposed resolution is an administrative function and will not cause a change in the environment.

FISCAL IMPACT:

There is no immediate fiscal impact associated with adopting the proposed resolution authorizing the Electrification Program and the use of revenues derived from LCFS credits, the PBC, electric rates, the use of public electric vehicle charging stations owned by the City, grants and other sources. Staff estimates electric energy consumption by electric vehicles in Pasadena currently generates about \$1 million in annual electric rate revenues. For FY2019, \$200,000 in PBC Funds have been budgeted for electrification programs. Sales of LCFS credits are expected to generate approximately \$420,000 to \$640,000 annually, and annual revenues from fees on public stations are anticipated to range from \$50,000 to \$200,000 by FY2020.

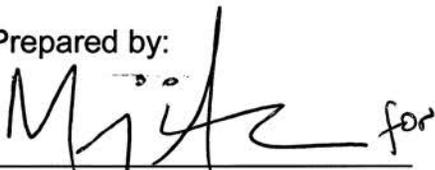
Implementation of the Electrification Program is expected to yield increased revenues from electricity sales that exceed the costs associated with implementing the Electrification Programs and any additional energy procurement costs. Net revenues received by PWP will help reduce or mitigate future electric rate increases.

Respectfully submitted,



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