



Agenda Report

May 13, 2024

TO: Honorable Mayor and City Council

THROUGH: Municipal Services Committee (April 23, 2024)

FROM: Water and Power Department

SUBJECT: AUTHORIZATION TO ENTER INTO A CONTRACT WITH NEWGEN STRATEGIES AND SOLUTIONS, LLC FOR ELECTRIC COST-OF-SERVICE ANALYSIS AND RATE DESIGN SERVICES ("ELECTRIC RATE STUDY") FOR AN AMOUNT NOT-TO-EXCEED \$258,042 FOR THE WATER AND POWER DEPARTMENT

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") pursuant to Section 21065 of CEQA and Sections 15060(c)(2), 15060(c)(3), and 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project; and
2. Authorize the City Manager to enter a contract, as a result of a competitive selection process, as specified by Section 4.08.047 of the Pasadena Municipal Code, with NewGen Strategies and Solutions, LLC ("NewGen") for an amount not-to-exceed \$258,042, which includes a base contract amount of \$215,035 and a contingency of \$43,007, to provide for any necessary change orders, for two years, with two optional one-year extensions, at no additional cost.

MUNICIPAL SERVICES COMMITTEE RECOMMENDATION:

On April 23, 2024, with one member absent, the Municipal Services Committee ("MSC") unanimously approved the staff recommendation to the City Council with clarification that a written authorization notice will be issued for each task/phase in the scope of work.

BACKGROUND:

Electric utilities periodically conduct comprehensive electric cost-of-service rate studies to realign customer rates with changing customer usage patterns, available technology,

and other evolving aspects of the utility industry. In 2014, Pasadena Water and Power (“PWP”) completed a comprehensive electric rate study which resulted in changes to the electric rate structure and three-year rate adjustments. More recently, PWP reviewed rates and revenue requirements again in 2020 to develop a financial forecast incorporating costs and resources identified in the 2018 Power Integrated Resource Plan (“IRP”). Utility best practice suggests that a utility would conduct a rate study every 5-10 years and/or with significant industry or business model changes. In addition, many portions of the rate ordinance have remained untouched since deregulation in the early 2000’s.

The purpose of this electric rate study is to develop a rate design and restructuring proposal that ensures revenue adequacy and fair and reasonable allocation of costs while balancing customer affordability and impacts to customers. Rate design is accomplished through the development of a financial model, which is a tool used to dynamically analyze financial scenarios to guide decision-making. With the use of empirical data and relying in part upon the consultant’s expertise with other electric utilities, PWP will explore rate structures and pricing incentives that will accommodate evolving industry trends and customer practices, such as customer-owned generation and storage devices.

The efforts involved in the electric rate study are expected to produce electric rate structures that can integrate Pasadena’s forward-thinking policy goals and community values, including Pasadena’s goal as recited in City Resolution 9977 to convert to 100% Carbon-Free Energy by 2030. To meet the fast-approaching 2030 target, PWP is focusing on implementation efforts, beginning with the development of an Optimized Strategic Plan, which will guide resource planning efforts through the clean energy transition. The electric rate study scope of work and project plan are developed to work seamlessly with these and other ongoing efforts to yield adjustments that would be proposed to be effective as early as July 2025 (Fiscal Year 2026).

The consultant will build a tailored financial forecast model for PWP to utilize in Fiscal Year 2026 and beyond for rate and revenue requirement projections. This model will provide resilient financial resources to support long-term sustainability amidst changing conditions, integrating prospectively the multiple planning efforts that must come together for revenue sufficiency and financial resiliency of the electric system.

NewGen will perform the following:

1. Project Startup, Kickoff, and Review of 2014 Study
2. Development of PWP’s Financial Forecast Model and Revenue Requirement
3. Cost-of-Service
4. Benchmarking
5. Rate Design
6. Council, Stakeholder, and Public Meetings or Presentations
7. Ordinance Review, Revisions and Testimony
8. Reports and Model Training

These tasks represent the cost-of-service, rate design and implementation lifecycle for creation, and adoption of updated electric rates.

Engagement with customers and the community on options and scenarios will also be a critical piece of the study’s scope and level of effort. The first task of the kick-off with the consultant will be to develop an appropriate public engagement plan, educational materials, and other efforts to ensure community understanding and acceptance of proposed adjustments.

Competitive Selection Process and RFP Evaluation

On November 30, 2023, PWP issued a Request for Proposals (“RFP”) seeking consulting services for an “Electric Cost-of-Service Analysis and Rate Design Study.” The RFP was posted on OpenGov with proposals due on January 22, 2024. The electronic posting generated notices to 2,688 vendors, including 233 local vendors. Documents were downloaded by seventeen vendors, of which none were local. Four proposals were received, of which none were local.

An evaluation of the proposals using the criteria set forth in the RFP was conducted by a five-member PWP evaluation team consisting of staff from three business units— Finance and Administration, Customer Relations, and Power Supply. Based on the results of the evaluation, PWP selected NewGen, the firm with the highest average score that best demonstrated the depth and range of cost-of-service analysis and rate design services, capabilities, and experience that are needed, including solid expertise in the areas of Proposition 26 and other California-specific policy issues, as well as hands-on work with recent rate design efforts in local markets. The average scores for the firms are shown in Table I. A complete scoring evaluation summary of the average scores is provided in Attachment A.

Table I: RFP Scores

Rank	Firm Name	Location	Evaluated Score (Out of 100)
1	NewGen Strategies and Solutions, LLC	Lakewood, CO	85.2
2	1898 & Co., part of Burns & McDonnell	Kansas City, MO	76.4
3	MCR Corporate Services, Inc.	Deerfield, IL	59.6
4	AIP Capital Markets	Rolling Hills Estates, CA	50.5

NewGen Strategies and Solutions, LLC is a management and economic consulting firm specializing in serving the utility industry. NewGen primarily serves public sector utilities and provides nationally recognized expertise in load forecasting, utility cost-of-service and rate design studies, financial feasibility studies, municipalization efforts, depreciation and appraisal studies, litigation support for state and federal regulatory proceedings, utility financial planning, and stakeholder engagement for electric, water,

wastewater, solid waste, and natural gas utilities. NewGen has recently completed multiple electric rate studies in Southern California, resulting in several successful multi-year rate adoptions. NewGen has been awarded two contracts by the City of Pasadena since 2017, totaling \$98,380.

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 sustainability.

ENVIRONMENTAL ANALYSIS:

The awarding of contracts for professional services is an organizational and administrative action 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 total cost of this action is \$258,042, which includes a base contract amount of \$215,035 and a twenty percent contingency of \$43,007 for necessary change orders.

Funding for this action will be addressed by the utilization of existing and future budgeted appropriations in the Power Operating Fund, 401, account number 42109230-8115. It is estimated that \$20,000 will be spent in Fiscal Year 2024. There are no anticipated impacts to other operational programs or capital projects as a result of this action. The fiscal impact summary is shown in Table II below.

Table II: Fiscal Impact

Contract Amount	\$215,035
Contingency	\$43,007
Total Fiscal Impact: Fiscal Year 2024 - 2025	\$258,042

Respectfully submitted,



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