



Agenda Report

21-1411

Agenda Date: 1/12/2021

REPORT TO COUNCIL

SUBJECT

Action on Resolution Amending Rate Schedules for Electric Service for All Classes of Customers, Effective February 1, 2021

COUNCIL PILLAR

Deliver and Enhance High Quality Efficient Services and Infrastructure

BACKGROUND

The City of Santa Clara's Electric Utility, Silicon Valley Power (SVP), is proposing a rate increase of 3% for all classes of customers, effective February 1, 2021 (Bill Cycle 704). SVP's budget for the 2020/2021 fiscal year assumed a 3% rate increase effective January 2021. The budget, with this assumption, was approved by the City Council on June 23, 2020.

Electric Utility staff have reached out to the Energy Task Force (large customers), school districts, numerous individual customers, and media representatives. Staff also has provided information via social media: Nextdoor, Twitter and Facebook. The rate increase notice will be published in the Outlet Newsletter that is mailed to all commercial customers.

DISCUSSION

The proposed 3% rate increase is needed to cover the increased cost of generating and delivering power to SVP customers including:

- Transmission access charges that apply to all electric energy that SVP receives via the PG&E transmission system. PG&E's electric transmission rate has tripled over the past 10 years and more stringent wildfire safety requirements and insurance costs are expected to continue to add to the rise in these charges.
- Additional renewable energy, reliability, and safety requirements that have been legislated.
- Continuing upgrades and maintenance of infrastructure required to maintain SVP's high service reliability.
- Low interest rates that have eroded interest income from SVP's cash reserves and the need to maintain SVP's cash reserve funds in order to maintain SVP's current A+/AA- bond ratings.

As noted above, one of the main purposes of the rate increase is to maintain SVP's infrastructure and overall system. The rate increase will add approximately \$1.1 million a month, and the funding is needed to be able to maintain and provide the current level of service. Rate increases are needed to:

- Purchase and produce the power to meet the City's needs
- Proactive maintenance of the generation (power plants) and distribution and transmission

system (poles and wires) to maintain SVP's high reliability.

- Continue to meet and exceed the State renewable energy requirements
- Proactive tree maintenance to minimize tree related outages

If the rate increase is not approved, there would be less funding to meet all the goals of the Utility. Staff would need to review the budget and determine where to decrease an equivalent amount, during a time when the system has already felt great pressure with State-wide fires, Public Safety Power Shutoffs (PSPSs), and other infrastructure impacts. The City would need to consider items such as:

- Reduce proactive maintenance to the transmission and distribution system which would increase outages
- Reduce proactive tree maintenance which would increase outages
- Reduce maintenance of generation assets which could cause failures or more expensive future Capital projects
- Reduce renewable power purchases for less costly options and instead to only meet minimum state requirements
- Reduce reserves which would affect future Bond ratings and would add additional future costs. Reserves should be in a range between \$120 to \$180 million to maintain current bond ratings and the reserves are currently at \$124 million. In Feb 2020, Fitch Ratings (Fitch) affirmed SVP's bond rating at AA- with a stable outlook, and based on those ratings, the City recently refinanced Bonds which saved the ratepayers approximately \$20 million.

Staff has taken every opportunity to partially offset these costs including selling renewable energy credits and greenhouse gas allowances that are not needed in the near term to achieve the City Council's sustainability policy objectives for SVP, a negotiated reduction in natural gas transportation costs, and reduced cost through debt management and refinancing. While the City recognizes that the timing may not be best placed for this increase, SVP's mission of providing reliable power citywide is dependent on having sufficient cash flow to meet the City's needs. SVP provides a rate assistance program and also developed a rate assistance program for those financially affected by COVID-19. That program was recently extended. SVP has also launched an energy efficiency grant program for small business impacted by COVID and continues to offer various energy efficiency rebates.

Santa Clara will still continue to have the lowest municipal utility and system average electric rates in California for utilities with more than 10,000 customers.

Average Cost of Rate Increase

The proposed increase also reflects a strategy to increase rates gradually. Rates were increased by 3% in 2017, and there was no rate increase in 2018 due to a high water year with significant hydroelectric power available. Rates were increased by 2% in 2019 and 3% in 2020. The intent is to provide relatively small and predictable increases that customers, both large and small, can plan for and to maintain the system. For an average residential electric customer (averaging 430 kilowatt hours per month in FY19-20), with the proposed 3% increase the customer's electric bill will increase by approximate \$1.60 per month (from \$53.70 to \$55.30) or \$19.20 a year. Residential bills for higher or lower usage levels will be proportionately larger or smaller. For customers who have difficulty absorbing these increases, SVP continues to offer assistance to low-income

customers and energy conservation programs and rebates to help customers reduce their electricity usage.

Staff proposes that rates and charges for all classes of customers be increased on a uniform percentage basis because the underlying cost increases reflected in this rate increase proposal are incurred on behalf of all classes of existing customers. The cost of hooking up new customers is recovered separately in connection fees that SVP charges to each new customer and to existing customers with new loads subject to load increase fees.

Comparison to PG&E

With the proposed increase, SVP will continue to have the **lowest system average rates in California** (for utilities with more than 10,000 customers), based on California Municipal Rates Group's most recent survey and SVP's rates will remain significantly below PG&E's current rates:

SVP Proposed Rates Below
Current (10-01-20) PG&E Rates

Residential	51%
Small Commercial	29%
Large Commercial	41%
Small Industrial	33%
Large Industrial	29%

News media indicates that PG&E has won regulatory approval to increase household customer rates by 6% to 8% in 2021 in order to update equipment and reduce wildfire risk. If those PG&E increases go into effect, the gap between SVP and PG&E rates will increase even more.

Rate Schedule CB-6 and CB-7

SVP is also proposing to amend Time of Use (TOU) rate under Rate Schedule CB-6 - Large Combined General Services, and Rate Schedule CB-7 - Large Combined General Services - Market Based Option. At the November 27, 2018 Council meeting, the City Council adopted Resolution No. 18-8629 which approved Rate Schedules CB-6 and CB-7. These rate schedules and the TOU rate under these rate schedules are both voluntary, and the TOU rate is designed to charge higher rate during on-peak hours and less during off-peak. The goal is to encourage users to lower their usage and cost during on-peak hours by providing a financial incentive.

The on-peak and off-peak energy use periods were established to be consistent with the California Independent System Operator's (CAISO) peak hours definition. Compared to the TOU periods in other rate schedules, this change had the effect of decreasing the number of on-peak hours and increased the number of off-peak hours. This change should have been reflected in the calculation of SVP's on-peak vs. off-peak market price differential during the revised periods. This oversight meant that some CB-6/CB-7 customers would be able to lower their bills without making any change in their usage patterns if they opt in TOU rate.

Therefore, SVP staff recommends that the TOU rate in CB-6 and CB-7 be revised to appropriately reflect the On-peak and Off-peak energy use periods defined in both rate schedules. This change will restore the intent of the TOU option, to encourage and support non-peak energy use.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a “project” within the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15273 in that it is an approval of a change in rate that will not result in direct or indirect changes in the environment.

FISCAL IMPACT

The rate increase is anticipated to generate approximately \$5.6 million in Fiscal Year 2020/21 and \$13.9 million annually thereafter. The additional revenues are included in the Amended FY 2020/21 Operating Budget in the Electric Utility Operating Fund. Revenue increases in the out years will be incorporated into the budget development process for those years.

COORDINATION

This report has been coordinated with the Finance Department and City Attorney’s Office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City’s official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City’s website and in the City Clerk’s Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk’s Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>>.

In addition, Electric Utility staff have reached out to the Energy Task Force (large customers), school districts, numerous individual customers, and media representatives. Staff also has provided information via social media: Nextdoor, Twitter and Facebook. A meeting was held with the Energy Task Force on October 20, 2020.

RECOMMENDATION

Adopt a Resolution amending Rate Schedules for Electric Services for all classes of customers effective February 1, 2021 and amending Time of Use rate under CB-6 and CB-7 Rate Schedule.

Reviewed by: Manuel Pineda, Chief Electric Utility Officer

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Resolution
2. Rate Schedules to be Effective February 1, 2021