City of Santa Clara

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Agenda Report

22-1231 **Agenda Date: 12/6/2022**

REPORT TO COUNCIL

SUBJECT
Public Hearing: Action on a Resolution Amending Rate Schedules for Electric Services for All Classes of Customers, Effective January 1, 2023

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 8% for all classes of customers, effective January 1, 2023 (Bill Cycle 728). This is an additional 3% above what had previously been communicated to Council. As described in the approved CIP budget: "For the purposes of the annual budget, SVP assumed a rate increase of 3% for calendar year 2023. However, with significant rising costs, a rate increase of 5% may be needed. Any proposed rate increase will be brought to City Council for approval in the fall 2022." A number of factors (described in the Discussion Section of this report) have increased costs significantly from what staff previously anticipated, including the surge to a 40-year high Consumer Price Index - a measure of inflation - that reached 8.2% over the past 12 months ending September.

Electric Utility staff have reached out to the Energy Task Force, (large customers), school districts, numerous individual customers, City news and SVP news subscriptions by way of GovDelivery. 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 8% rate increase is needed to cover the increased cost of generating and delivering power to SVP customers. SVP's primary cost drivers are driven by inflation, natural gas prices, and electric supply and distribution costs. These costs have increased significantly more than previously expected for FY 2022/23 and beyond. For FY2022/23, over 20% of the power supply may be purchased from the California Independent System Operator (CAISO) market, and the market price is trending 50% higher than recent historical costs due to drought and higher natural gas prices. The drivers of the rate increase are as follows:

- The historic 40-year high Consumer Price Index that affects prices for materials, construction, maintenance, operations, etc.
- Higher natural gas prices that increase the cost of any electricity purchased in the daily open market. Natural gas prices have experienced high volatility this year, up at some points nearly 150% from the start of year and currently remain nearly 50% higher than at the end of last year. (Attachment 3)
- Higher renewable energy cost. As part of new Power Purchase Agreements staff is seeing a

15% to 20% increase for proposed projects. These numbers are expected to continue to increase as all utilities and consumer choice aggregators attempt to meet rising renewable power portfolio targets.

- Lower hydroelectric generation output as a result of the on-going drought conditions. Hydroelectric generation is significantly lower than an average year.
- A 31.3% increase in low voltage transmission access charges and a 21.8% increase in high voltage transmission access charges (TAC) which apply to electric energy that SVP receives via the Pacific Gas and Electric (PG&E) transmission system. These costs are expected to continue to increase (Attachment 4).
- A 36% increase in gas transportation rates and access charges for the delivery of fuel to SVP's gas-fired in-town power plants and to the NCPA operated Lodi Energy Center.
- A significant part of the electric distribution cost is the capital improvement needed for the aged system which is also expected to increase due to the higher commodities costs caused by the supply chain issues around the world and the inflation rate.

Cost Reduction and Rate Assistance

The rate increase will add approximately $5.7 million a month in calendar year 2023. This funding is needed to be able to maintain the current level of service, provide additional energy storage and load shaping required to integrate a higher level of renewable energy while maintaining system resiliency.

Staff has taken every opportunity to partially offset these cost increases, 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. Selling these credits has resulted in $2 to $5 million of net revenues in previous years.
- Hedging natural gas supply needs prior to the current run up in gas commodity prices which would saves $5 to $15 million relative to an unhedged position.
- Reducing debt payments through debt management and competitive bidding. The most recent refinancing saved the utility approximately $20 million over the 10-year term of the bonds.

In addition to being as aggressive as possible to offset costs, SVP provides a rate assistance program for low-income consumers. The Rate Assistance will be increased starting January 2023 and the proposed rate increase should be completely offset for most customers who are enrolled.

SVP also applied and received funding this year from the California Arrearage Payment Program that provided financial assistance for residential energy utility customers who incurred past due energy bills during the height of the COVID pandemic. Through this program SVP received $1.3 million and provided support to 7,964 residential customers.

SVP has also launched an energy efficiency grant program for small business impacted by COVID and continues to offer a variety of energy efficiency rebates.

Average Cost of Rate Increase

The 8% rate increase proposed by staff is higher than the 3% rate increase of the past 3 years. With the Covid-19 pandemic in mind, SVP kept rate increases to the minimum over the last two years. This proposed rate increase aligns with the current inflation rate of over 8%, the highest since 1981.

For an average residential electric customer (averaging 420 kilowatt hours per month in FY2021/22), with the proposed 8% increase the customer's electric bill will increase by approximate $4.44 per month (from $55.61 to $60.05) or approximately $53.28 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. As discussed above, the City is updating its Rate Assistance Program, and for the first 300KWh the discount will increase from 25% to either 35% or 40% depending on income level.

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 average system rates in California (for utilities with more than 10,000 customers), based on U.S. Energy Information Administration's Annual Electric Power Industry Report (Form EIA-861 for 2021 data), and SVP's rates will remain significantly below PG&E's current rates. News stories indicate that PG&E rate increases have totaled 19% more in 2022 than in summer of 2021.

	SVP Proposed Rates Percentage Below Current (06-01-22) PG&E Rates
Residential	57%
Small Commercial	34%
Large Commercial	48%
Small Industrial	40%
Large Industrial	36%

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 the proposed action is a modification of rates which is needed in order to meet operating expenses, among other things.

FISCAL IMPACT

The rate increase is anticipated to generate approximately $21.7 million additional revenue in Fiscal Year 2022/23 and $46.5 million annually thereafter. The additional revenues will be included in the FY 2023/24 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> or at the public information desk at any City of Santa Clara public library.

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.

RECOMMENDATION

Adopt a Resolution amending Rate Schedules for Electric Services to Increase Electric Rates and Charges in Each Rate Schedule by Eight Percent (8%), effective January 1, 2023.

Reviewed by: Manuel Pineda, Chief Electric Utility Officer
Approved by: Rajeev Batra, City Manager

ATTACHMENTS

1. Resolution
2. Rate Schedules for Electric Services for All Classes of Customers, to be Effective January 1, 2023
3. Natural Gas Volatility 2022
4. Transmission Access Charges
5. Santa Clara University (SCU) Response to Rate Increase