



## Agenda Report

19-298

Agenda Date: 11/19/2019

### REPORT TO COUNCIL

#### SUBJECT

**Public Hearing:** Action on Resolution Amending Rate Schedules for Electric Service for All Classes of Customers, Effective January 1, 2020 and establishing Rate Schedule PA-E

#### 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 January 1, 2020 (Bill Cycle 692). SVP's approved budget, approved by Council on June 25, 2019, for the 2019/20 fiscal year assumed a 3% rate increase effective January 2020.

Electric Utility staff first discussed the proposed increase with the City Council during the fiscal year 2020 budget process in June 2019. 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. The rate increase notice was also published in the September addition of Inside Santa Clara.

SVP is also proposing to amend Schedule SB-1 (standby rate schedule), which currently applies to certain large customers with non-solar on-site self-generation. As a background, during its regularly meeting on December 19, 2017, Council adopted Resolution #17-8485 to amend Electric Rate Schedule SB-1 to improve the applicability of Schedule SB-1 to a wider variety of customer self-generation configurations. However, since its implementation, Electric Utility staff has found the billing process to be burdensome and difficult for customers to understand. Therefore, SVP is proposing an amended Schedule SB-1 to streamline the calculation of capacity reservation charges while achieving substantially the same amount of demand related revenue that SVP would have been received under the current Schedule SB-1.

SVP further proposes to establish new electric Rate Schedule PA-E for providing unmetered service to telecommunications equipment mounted on SVP-owned poles. Pursuant to Assembly Bill (AB) 1027, publicly owned electric utilities are required to make appropriate space and capacity of utility poles available to third party communication companies. During its regular meeting on January 12, 2016, Council adopted Resolution No. 16-8285 to amend rates for third party communications attachments to City owned utility poles, and further on August 21, 2018, Council adopted Resolution No. 18-8594 to establish rate for small cell attachments to City owned utility poles by third party communication service providers. Currently, there is one communication company with unmetered equipment on SVP poles pursuant to a long term agreement. The monthly electric usage, as estimated by SVP, of such equipment is billed under SVP small commercial Rate Schedule C-1. In anticipation of an increasing variety of equipment attachments to City poles by additional communication service providers, staff is proposing a standard rate schedule - Rate Schedule PA-E -

for providing this type of electric service. The rates under Rate Schedule PA-E are aligned with the rates under Rate Schedule C-1 while the energy consumption is based on the estimated power draw of each equipment.

## **DISCUSSION**

The proposed 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 and additional renewable energy and reliability requirements that have been legislated. PG&E's electric transmission rate has tripled over the past 10 years. Continuing upgrades to SVP substations and distribution infrastructure are required to maintain SVP's high service reliability. Other factors include 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. Partially offsetting these cost uplifts have been revenues from 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 transmission costs, and reduced cost through debt management and refinancing.

The proposed increase also reflects a strategy to increase rates gradually. Rates were increased by 2% in 2016 and by 3% in 2017. 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. The intent has been, and continues to be, focused on relatively small and predictable increases that customers, both large and small, can plan for. At the same time, 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 noted above, one purpose of the rate increase strategy is to maintain SVP's long term bond ratings. In 2018, SVP's bond rating was raised to AA- with a stable outlook by Fitch Ratings (Fitch) and affirmed A+ with a revised outlook to stable by Standard & Poor's (S&P). This increase in ratings was partly based on SVP maintaining sufficient operating cash flow to cover debt service, replenishing the Rate Stabilization Fund to \$120 million by the end of Fiscal Year 2017/18, and the willingness of City Council to adjust rates as necessary. SVP staff believes that this is a prudent balancing of rate increases and the need to maintain cash reserves in order to support the current credit ratings.

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.

For an average residential electric customer (averaging 410 kilowatt hours per month in FY18-19), the customer's electric bill will increase by approximate \$1.50 per month (from \$49.65 to \$51.15), or 3%. Residential bills for higher or lower usage levels will be proportionately larger or smaller.

With the proposed increase, SVP will continue to have the lowest system average rates in California (for utilities with more than 9,000 customers), and SVP's rates will remain significantly below PG&E's current rates:

	<u>SVP Proposed Rates Below Current (7-1-19) PG&amp;E Rates</u>
Residential	49%
Small Commercial	26%
Large Commercial	39%
Small Industrial	32%
Large Industrial	25%

With the proposed rate increase, SVP rates will be sufficient to produce the revenue needed to cover SVP's costs for purchasing and producing power, receiving that power, upgrading and operating SVP's distribution system, and maintaining SVP's cash reserve fund. This increase meets the overarching City objective that its enterprise funds remain fiscally sound. Santa Clara will continue to have the lowest municipal utility and system average electric rates in California for utilities of its size.

### **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, on an annualized basis, approximately \$2.3 million in Fiscal Year 2019/20 and an additional \$8.3 million in Fiscal Year 2020/21. These additional revenues are included in the Adopted Biennial Operating Budget.

### **COORDINATION**

This report was 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) <<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. A meeting was held with the Energy Task Force on October 17, 2019.

### **RECOMMENDATION**

Adopt a Resolution of the City of Santa Clara Amending Rate Schedules for Electric Services for All Classes of Customers effective January 1, 2020, and establishing Rate Schedules PA-E.

Reviewed by: Manuel Pineda, Chief Electric Utility Officer

Approved by: Deanna J. Santana, City Manager

**ATTACHMENTS**

1. Resolution Amending Rate Schedules for Electric Services for all Class of Customers to be Effective January 1, 2020, and to Streamline Rate Schedule SB-1, and Establishing Electric Rate Schedule PA-E, including Rate Schedules.