



ITEM NO.: 11b

MEETING DATE: December 7, 2016

## Agenda Summary Report (City Manager's Report)

**SUBJECT: THE UKIAH CITY COUNCIL TO RECEIVE A FINANCIAL REPORT OF THE ELECTRIC UTILITY AND ADOPT THE PROPOSED ELECTRIC RATE ADJUSTMENTS BY RESOLUTION (EUD).**

**Summary:** Per Ukiah City Code Division 4, Chapter 6, Sections 3950 through 3957, the City Council will hold a public hearing on December 7, 2016, to receive the City Manager's Report on electric utility energy rates and consider adoption by resolution of proposed electric rate increases. Legal notices were published successfully in accordance with City Code section 3953. The Agenda Summary Report and the City Manager's Report are to be considered the same report.

**Background:** Ukiah Electric Utility is the City's publicly owned electric utility with the City Council providing local governance and oversight. The City Council provides policy, direction and approves electric rates. As a 118-year-old municipal utility, our rates are based on the cost to provide service; there is no profit built in. Instead, the revenue from electricity sales goes toward operation and improvement of the system, and then to improving services and the quality of life for residents. The electric energy costs for the citizens of Ukiah are significantly lower than what others pay anywhere in Mendocino County.

Since 2007, the electric utility has experienced cost increases across all categories while revenues have remained essentially flat. Capital investment was accelerated to address deferred maintenance and to implement newer proven technologies resulting in improved reliability and safety. During this period of accelerated system investment, expenditures exceeded revenues by about \$1.4 million dollars (refer to Attachment #1). This was done to reduce the historic cash reserves to acceptable levels while not economically impacting customers. Presently the utility's cash reserve exceeds \$10.1 million with a reserve target between \$6.5 and \$7.5 million. This reserve amount insures adequate funding for major equipment failures and provides for rate stabilization insuring solvency during energy market cost fluctuations.

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**RECOMMENDED ACTION(S):** The Ukiah City Council to receive a financial report of the Electric Utility and approve the proposed electric rate adjustments by Resolution (EUD)

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**ALTERNATIVES:** Do not approve but provide direction to staff.

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Citizens advised:	Utility rate ad hoc, Councilmembers Crane and Doble
Requested by:	Sage Sangiacomo, City Manager, Mel Grandi, Electric Utility Director
Contact/Prepared by:	Mel Grandi, Electric Utility Director, Diann Lucchetti, Electric Utility Program Coordinator
Coordinated with:	Sage Sangiacomo, City Manager, Daniel Buffalo, Finance Director; David Rapport, City Attorney
Presenter:	Sage Sangiacomo, City Manager
Attachments:	1. Five Year – History Graph 2. Five Year - No Rate Change Graph 3. Proposed Electric Rates 4. Rate Comparison Table 5. Five Year – With Rate Change Graph 6. Resolution

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**COUNCIL ACTION DATE:** \_\_\_\_\_ :  Approved  Continued to \_\_\_\_\_  Other \_\_\_\_\_

**RECORDS APPROVED:**  Agreement: \_\_\_\_\_  Resolution: \_\_\_\_\_  Ordinance: \_\_\_\_\_

*Note: Please write Agreement No. in upper right corner of agreement when drafted.*

Approved: \_\_\_\_\_  
Sage Sangiacomo, City Manager

Attachment #2, assumes no rate adjustment over the next five years. As shown, the cash reserve would decrease to \$1.2 million. This is well below our cash target level and will impact the utility's operating needs and community goals.

**Discussion:** The electric utility faces increased cost pressures from a number of areas. First, utility infrastructures such as poles, wires and equipment need to be replaced at a stepped up rate to maintain the reliability of the system. Second, new technologies such as automated meter reading and system control are needed to improve the utility's reliability and to meet future regulatory requirements. Other costs such as medical and pension costs continue to rise.

To meet these challenges and maintain an adequate cash reserve, a phased rate change over four years is recommended. A total of five rate adjustments of 3% each are proposed with the first on January 1, 2017, and the four remaining rate changes implemented every year at the beginning of the fiscal year on July 1<sup>st</sup>. The phased approach of 3% provides a modest change per year approximating inflation. Under California Proposition 26, court rulings have indicated that electric rates must meet cost of service requirements. A cost of service of the electric rate classes shows that the phased approach of the across-the-board rate increases will meet Proposition 26 requirements.

In addition to the phased rate approach, the residential rate structure will add a basic monthly charge based on the customer's usage. Cost of service indicates a fixed basic charge is appropriate to cover the infrastructure maintenance. Attachment #3 contains the proposed rates by class and schedule of adjustments.

Most electric bills will increase by 3% per adjustment date. As an example, this increase for the average residential customer using 480 kWh per month will see a \$2 increase in their bill from about \$65 to \$67 a month for the first adjustment. Similarly, the average small commercial customer of 1,500 kWh per month will see a \$7 increase from \$245 to \$252. The City's electric customers will maintain a 25%-30% savings compared to other local electric providers and a savings of 20% compared to Community Choice Aggregation. Attachment #4 demonstrates this.

**Conclusion:**

The proposed rate change, refer to Attachment #5, meets the goals of:

1. Expenditures equal to revenues with a prudent cash reserve.
2. Smaller rate adjustments over a period of time.
3. Rates are proposed and reviewed in a timely proactive schedule.
4. Protects the financial health of the community owned electric system.
5. Increased use of renewable resources towards a carbon free community.
6. Help retain highly skilled and trained professional engineers and technical staff.

The City Manager, Staff and Electric Rate Ad-Hoc committee recommend proceeding with proposed electric rate adjustments by resolution, which is Attachment #6.