CITY OF GLENDALE, CALIFORNIA
REPORT TO THE CITY COUNCIL

AGENDA ITEM

Report: 2023 Electric Rates Cost of Service Analysis (COSA).

1. Ordinance Establishing Electric Rates for Glendale Water and Power Customers.

COUNCIL ACTION

Item Type: Action Item

Approved for November 14, 2023 **calendar**

EXECUTIVE SUMMARY

Glendale Water and Power's (GWP) last electric rate increases for Glendale customers was implemented five years ago in 2018. During the recent budget planning process and cost of service analysis, GWP staff has determined that the projections showed that the revenues collected from the current electric rates will not be sufficient to fully recover the cost of service provided to the customers by the electric operations and fund the necessary capital improvements. The primary causes of the deficits are the increasing cost of wholesale purchased power; materials, equipment, and labor; variable fuel prices; decline in revenues; renewable energy projects; and other inflationary factors such as higher interest rates for debt service.

GWP is proposing two electric rate increase options for City Council to consider. Option 1 is a three-year increase averaging 14.8%, 11.3% and 11.3% that will take effect January 1, 2024, July 1, 2024, and July 1, 2025. Option 2 is a four-year increase averaging 13.6%, 9%, 9% and 9% that will take effect January 1, 2024, July 1, 2024, July 1, 2025, and July 1, 2026; respectively. The rate adjustments will fund the Grayson Repowering Project, as well as provide partial funding for the Scholl Canyon Biogas Renewable Generation Project, City Solar projects, Glendale's commitment to building and fleet electrification, and to cover the general increases in costs of, wholesale purchased power, renewable energy projects, and fuel.

RECOMMENDATION

That Council adopt Option 1 of the proposed rate plans as it represents the lowest total increase to customers and the lowest debt service of the two options. Approval of these rate increases ensures that the utility's financial obligations are sufficiently met so as to allow the utility to issue bonds to fund the approved capital projects, and to implement adjustments in equity in the individual rate classifications per Proposition 26 requirements.

Adoption of either option will enable the issuance of bonds in three tranches reasonably coinciding with the electric rate adoption schedule. Currently, bond rates for the adoption period are expected to fall within the range of 4.5% - 5.5%. Staff will be returning to Council for authorization of the issuance of bonds in the near future.

Analysis

There are two components in GWP electric rate structure: a base rate component and the adjustment components. The base rate is designed to recover the direct and indirect costs of providing the infrastructure to serve local customers. Such costs include, but are not limited to, those associated with the purchase of power, with transmission and distribution, with customer service, and with administration. The base rate should also include a reasonable rate of return (RoR) on investments. The RoR is to effectuate a transfer to the City's General Fund, to establish sufficient reserves for ongoing capital improvement projects that ensure the reliability and integrity of the system's infrastructure, and to upgrade the generation assets to improve the cost structure and competitiveness of the energy resources. The base rate structure is designed through a cost-of-service study that equitably associates the rates to the costs of providing electric services to various customer classes.

The cost adjustment charges are used to manage the difference between projected costs in the most recent COSA and actual costs for specific GWP accounts, market conditions, and/or regulatory impacts. The GWP electric rates have three cost adjustment charges:

- Regulatory Adjustment Charge (RAC) - adjusts for the variances from projected regulatory compliance costs and the actual costs.
- Energy Cost Adjustment Charge (ECAC) - adjusts for the variations from the projected costs of fuel and purchased power and the actual costs.
- Revenue Decoupling Charge (RDC) - adjusts for the differences between actual and projected sales volumes.

The cost adjustment charges are adjusted administratively every six months based upon a City Council adopted formula that is fixed in the Electric Rate Ordinance.

The cost adjustment charges have increased over the years to account for the significantly lower electric sales and higher natural gas and power purchase costs than were projected in the 2018 COSA.

Recent Financial Performance of the Electric Retail Operations

Total retail revenue is made up of two components, the rates charged, and the volume sold. The electric retail consumption has declined 4.8% from fiscal year 2017-2018 compared to fiscal year 2022-2023. Over time, however, the cost to service the customers has grown. The net impact is reflected in the declining net profits as shown in the table below. Assuming the same revenue base with no rate changes or insufficient rate increases, it is projected that the retail operations will continue to experience net losses.

	Dollars in Thousands		
	Fiscal Year 2020-2021	Fiscal Year 2021-2022	Fiscal Year 2022-2023
Total Electric Revenues	$ 232,958	$ 240,593	$ 281,914
Total Electric Expenses	235,797	242,485	297,520
Net Loss	$ (2,839)	$ (1,892)	$ (15,606)

GWP is proposing to increase the rates currently charged for electric service. GWP's electric rates were last increased in 2018 which published a five-year electric rate plan for GWP customers covering fiscal year 2019 through 2023.

Since 2018, there have been significant changes, new mandates, new investments, and approved projects which necessitated a new Electric cost of service analysis (COSA) to keep the utility financially stable over the next three to five years for the period of fiscal year 2024 through fiscal year 2028.

On July 1, 2019, GWP entered into a Professional Services Agreement with NewGen Strategies and Solutions, LLC. to provide an electric cost of service analysis to calculate the electric rates needed to support the Grayson Repower Project, the Scholl Biogas Renewable Generation project, GWP's Solar Design Built program and other annual capital improvement projects, such as the 4kV to 12 kV distribution system upgrades.

The table below shows the results of the COSA. In order to meet the debt coverage ratio of 1.1x, the electric utility needs to increase the rates an average of 14.8% in year one, and increase the rates an average of 11.3% in years two and three. The debt service coverage of 1.1x is the minimum coverage allowed for the utility in the bond covenants. The first year increase will also allow the utility to increase its cash reserves above the required 300 days cash on hand. Having sufficient cash reserves on hand is recommended by the rating agencies and results in a higher bond rating.

	Dollars in Thousands				
	FY 2024	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Revenues	**$ 257,661**	**$ 289,713**	**$ 325,016**	**$ 328,903**	**$ 332,722**
Revenue Requirement	**242,409**	**278,459**	**318,097**	**339,668**	**346,567**
Over (Under) Collection	**$ 15,252**	**$ 11,254**	**$ 6,919**	**$ (10,765)**	**$ (13,845)**
Over (Under) Revenue to cover Depreciation and transfer	**$ (32,618)**	**$ 12,224**	**$ 37,997**	**$ 32,932**	**$ 29,668**
Number of Days of Cash Reserves	**308**	**344**	**346**	**320**	**295**
Debt Coverage Ratio	**1.10**	**2.35**	**2.48**	**2.07**	**2.00**
Rate Increase needed	**14.8%**	**11.3%**	**11.3%**	**0.0%**	**0.0%**

NewGen has calculated GWP's revenue requirements and has presented two options for City Council's consideration. Option 1 is a series of average increases over a three-year period of 14.8%, 11.3% and 11.3% effective January 1, 2024, July 1, 2024, and July 1, 2025; respectively. The total compounded average rate for Option 1 is 42.2%. The average increases for the specific customer classes are shown in the table on next page.

	FY 2024	FY 2025	FY 2026	Cumulative
Residential	18.7%	14.2%	13.6%	54.0%
Small Business	18.8%	12.4%	13.2%	51.1%
Medium Business	10.4%	6.9%	7.2%	26.5%
Large Business	10.9%	9.9%	10.0%	34.1%
System Average	14.8%	11.3%	11.3%	42.2%

Option 2 is a series of average increases over a four-year period of 13.6%, 9%, 9% and 9% effective January 1, 2024, July 1, 2024, July 1, 2025 and July 1, 2026; respectively. The total compounded average rate for Option 2 is 47.1%, which is 4.9% higher than Option 1. This is one of the reasons why staff does not recommend Option 2. The average increases for the specific customer classes are shown in the table below.

	FY 2024	FY 2025	FY 2026	FY 2027	Cumulative
Residential	17.0%	10.8%	10.8%	10.8%	59.2%
Small Business	16.8%	10.1%	10.2%	10.2%	56.2%
Medium Business	8.9%	6.4%	6.3%	6.3%	30.9%
Large Business	11.3%	7.7%	7.5%	7.7%	38.8%
System Average	13.6%	9.0%	9.0%	9.0%	47.1%

The rate adjustments will ensure the electric utility has sufficient funds to pay the debt service on the bonds that will be issued over the next three years.

Bond funding to be used for the Grayson Repowering:

The Grayson Repowering Project is underway. City Council authorized the contract for the demolition which is currently in progress. Also, in December 2022, Council authorized the purchase of three Wartsila engines and associated power island equipment and facilities in the not-to-exceed amount of $170,000,000 subject to City Council's authorization for financing. Staff has further negotiated the the Wartsila engines procurement contract at a lesser amount which is being presented to the City Council for approval in a separate report dated November 14, 2023.

Bond funding to be used for the Biogas Renewable Generation Project:

The Biogas Renewable Generation Project which is currently underway with construction set to commence within the next few weeks. A portion of the anticipated bond financing will be utilized for the Biogas Renewable Generation Project including the purchase of the equipment for the project facilities.

Solar Projects on City Facilities:

The City Council is being presented with a separate Report from the General Manager of GWP, also dated November 14, 2023, for six proposed solar projects at City owned facilities. Bond funding will be used for these projects.

Rate Increases – A Critical Path:

The proposed electric rate increases is necessary to support the City in the issuance of the bonds for the Council requested Solar Projects, and to complete the Biogas and the Grayson Repower Projects (Projects). Without the rate increases the City will not qualify for the rating required to issue the bonds; the bonds are necessary to complete the Projects and will not be issued without the revenue to support the bond payments. Without the rate increases and without the bonds the Projectswill not be built, and GWP and certain City functions will be jeapordized. The consequential impacts on the City would be real, significant and long-lasting. These include, but are not limited to,

- Inability to supply the City's electric load
- Lack of reserve capacity to serve electric load into the future
- Inability to fund renewable projects, or invest in or participate in renewable projects based on GWP revenue
- Inability to meet projected 2035 and other renewable portfolio goals/standards
- Inability to complete GWP Fund Transfer and commensurate impacts on City Services.
- Breach of statutory and contractural obligations to FERC, State of California, SCPPA, BAASA
- Increases in rates well beyond the current rate increase requested due to the need to purchase additional transmission capacity (if possible), and need to obtain supply from private or public generators overwhich City does not have control.
- Potential loss of Glendale publicly owned utility due to lack of revenue
- Existing contract termination damages
- Potential to be assessed fines by Federal regulators (FERC)

STAKEHOLDERS/OUTREACH

GWP held three community meetings on October 18th, 19th and 25th, 2023.

FISCAL IMPACT

Option 1 will increase the revenues by approximately $108 million over the next three years. Option 2 will increase the revenues by approximately $113 million over the next four years.

ENVIRONMENTAL REVIEW

Pursuant to California Environmental Quality Act (CEQA) CEQA Guidelines Section 15273, CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, and other charges by public agency which the public agency finds are for the purpose of (1) meeting operating expenses including employee wage rates and fringe benefits, (2) purchasing or leasing supplies equipment or materials, (4) meeting financial reserve needs and requirements, for obtaining funds for capital projects necessary to maintain service within existing service areas, or (5) obtaining funds necessary to maintain such intra-city transfers are authorized by City Charter.

As set forth in this report, the electric rate increases recommended for approval are for the express purposes of meeting existing operating expenses of GWP, purchasing supplies, equipment or materials necessary to operate the utility, funding certain capital improvements necessary to supply electricity to the residents and businesses within Glendale's service area, and to ensure the Glendale City Charter authorized intra-city transfer can be maintained.

CEQA Guidelines Section 15273(c) requires the City Council to incorporate written findings in the record of any proceeding in which an exemption under this section is claimed setting forth with specificity the basis for the claim of exemption. The required findings are set forth in the Ordinance Establishing Electric Rates for Glendale Water and Power Customers accompanying this staff report.

CAMPAIGN DISCLOSURE

Not Applicable.

ALTERNATIVES

Alternative 1: Adopt Option 1 recommended by staff and implement a five-year series of system average electric rate increases of 14.8%, 11.3%, 11.3%, 0.0%, 0.0%.

Alternative 2: Adopt Option 2 proposed by staff and implement a five-year series of system average electric rate increases of 13.6%, 9.0%, 9.0%, 9.0%, 0.0%.

Alternative 3: Do not adjust the rates per staff recommendation and maintain the current electric rates which will result in the cancellation of Council-approved projects such as the Grayson Repowering Project and will significantly reduce GWP's ability to implement key system upgrades and distributed energy resource efforts aligned with Council-adopted Clean Energy Resolution. It is reasonable to forecast that the stoppage of the Grayson Repowering Project would have dire impacts to GWP's ability to meet its energy obligations to its customers.

Alternative 4: Consider any other alternative not proposed by staff.

ADMINISTRATIVE ACTION

Prepared by:
Mark Young, General Manager - Glendale Water & Power
Scott Mellon, Assistant General Manager - Power Management
David Davis, Utility Finance Manager

Approved by:
Roubik R. Golanian, P.E., City Manager

EXHIBITS / ATTACHMENTS

Exhibit 1: Cost of Service Analysis
Exhibit 2: Option 1 Rate Tables (***Recommended***)
Exhibit 3: Option 2 Rate Tables