



## Legislation Text

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File #: 23-1439, Version: 1

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### **CITY MANAGER AUTHORITY PROCUREMENT AWARDS**

#### **ACTION REQUESTED:**

Waive the application provisions of the Naperville Procurement Code and award Procurement 24-052, Comprehensive Electric Utility Cost-of-Service Rate Study, to Utility Financial Solutions for an amount not to exceed \$97,700 and for a three-year term.

**DEPARTMENT:** Electric Utility

**SUBMITTED BY:** Brian Groth, Director

#### **BACKGROUND:**

In 2021, the City contracted with Utility Financial Solutions (UFS) to perform an Electric Utility Cost of service study. This rate study was the third completed for the Utility by UFS (2015, 2018, 2021) and they have been an excellent partner of the Utility through these years.

The 2021 study completed by UFS was utilized by City staff and council in setting rates for the Electric Utility through the end of 2024. UFS completed the rate study with the following financial goals:

1. Restore the Capital Maintenance Program to an appropriate level for three years.
2. Restore Electric Utility cash reserves to an appropriate level.

The Electric Utility rate design, which included the following items, was approved by the City's Public Utility Advisory Board (PUAB) and ultimately by Naperville City Council on March 02, 2021:

1. Incorporated an increase of 0.50% for all customer classes in 2022, 2023, and 2024 and no issuance of debt.
2. Implement a gradual cost of service shift beginning in 2022 to align costs and revenues in each utility customer class with the long-term goal of ensuring that each rate class (Residential, Small Commercial, Large Commercial, etc.) is paying their fair share of utility costs.
3. Begin shifting basic costs of service from the energy charge to the fixed meter charge to ensure capital maintenance programs are funded by a stable revenue source.

The rates set by council allowed the Utility to complete required capital projects while maintaining the City's competitive rate position with highly reliable service.

Expense projections from the 2021 rate study have aligned with actuals (when adjusted for inflation) through 2023. Due to the Utility's declining energy sales revenues have been behind projections.

**DISCUSSION:**

As noted, Utility is currently in the third and final year of rates set by council in 2021. The utility and finance department are requesting that UFS perform a comprehensive rate/cost of service study to recommend rate options for 2025-2028 with the following goals:

1. Provide sufficient revenue to ensure 24x7x365 operations of the utility are funded.
2. Support procurement of long lead time items so that adequate supplies are available in the Utility’s warehouse for emergencies and new customer projects.
3. Fund required Utility Capital improvements for three years and provide rate options, for evaluation, to support additional utility undergrounding efforts.
4. Continue shifting cost of service and capital expenses from the energy charge to a fixed charge so that capital and maintenance projects are funded independent of energy sales.
5. Continue to ensure that each customer class is paying their share of utility costs.
6. Restore Electric Utility cash reserves to a level consistent with City policy.
7. Provide Time of Use, Fair Value of Solar, and Battery Storage Discharge rates for review and
8. Ensure that rates are competitive.

Staff recommends waiving the procurement code and contracting with UFS for \$97,700 to complete a comprehensive cost-of-service rate study for the years 2025-2027.

The term of this award is from 1/25/2024 to 12/31/2027.

**FISCAL IMPACT:**

CIP #: N/A

The 2024 Comprehensive Electric Utility Cost-of-Service Rate Study is expensed to the Professional Service account listed below. A total of \$120,000 has been budgeted for the Electric Rate Study in 2024. The requested award of \$97,700 is within the budgeted amount for this expense.

| Account Number  | Fund Description      | Total Budget Amount |
|-----------------|-----------------------|---------------------|
| 40101300-531309 | Electric Utility Fund | \$173,300           |