



Legislation Text

File #: 21-0283, Version: 1

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Waive the applicable provisions of the Naperville Procurement Code and award Procurement 21-097, 2021 Comprehensive Electric Utility Cost-of-Service Rate Study, to Utility Financial Solutions, LLC for an amount not to exceed \$68,090

DEPARTMENT: Electric Utility

SUBMITTED BY: Brian Groth, Director

BOARD/COMMISSION REVIEW:

The Public Utility Advisory Board (PUAB) concurred with staff to waive the applicable provisions and proceed with a recommendation to City Council to award the 2021 Comprehensive Electric Utility Cost-of-Service Rate Study to Utility Financial Solutions.

BACKGROUND:

In 2018, the City contracted with Utility Financial Solutions (UFS) to perform a rate study. The study was a guide for the City in making appropriate financial decisions for the Electric Utility through 2021. UFS completed the rate study with the following financial goals:

1. Restore the "Capital" Maintenance Program to an appropriate level; and
2. Restore cash reserves to an appropriate level.

The rate design, based on the following items, was approved by the City Council on February 20, 2018:

1. Implement a "Capital" Maintenance Budget (\$14 million, \$14 million, \$14 million) over the next three years;
2. Complete a rate design that incorporates rate decrease of -2.0% for all customer classes in 2019, 2020 and 2021 and no issuance of debt. This option restores the cash balance of the Electric Utility to a projected \$31.5 million by the end of 2021;
3. Implement a gradual cost of service shift beginning in 2022 to align costs and revenues in each utility customer class with a goal of bringing costs into sync in a 5-7year timeframe. Residential, small commercial, and transmission classes are currently not covering their cost of service and are being subsidized by larger commercial; and shift part of customers' energy costs to the customer charge portion of utility bills each year to provide a stable revenue source for fixed utility costs.

This action was a measured approach, allowing the Utility to slowly improve cash flow while also maintaining the City's competitive rate position with highly reliable service.

DISCUSSION:

The Electric Utility is currently in the third and final year of the rate implementation. Staff recommends the City complete another rate study for the years 2021-2023 to verify that rates are appropriate to support the operational and capital needs of the Utility. In 2015, the City received proposals from eight vendors. Following the proposal review and interviews, four vendors were shortlisted to submit cost proposals. UFS had the lowest quality adjusted cost and was recommended for award. The cost proposals ranged from \$78,500 - \$125,000. UFS was the lowest with the next closest at \$110,110. St. Charles Electric Utility recently awarded a rate study for \$80,000.

UFS proved to be an excellent partner in our last rate study. They have expertise in the market place, a positive and responsive team, familiarity of the electric rate model, and proven accuracy in the previous rate study. Projections from the 2018 rate study have aligned with actuals through 2020, even in a volatile market place. In 2018, UFS projected our cash balance at the end of 2021 to be \$31.5 million. Due to our very fiscally conservative approach to capital spending in 2018, the cash balance at the end of 2019 is now projected to be \$38.2 million.

It should be noted that the Financial Advisory Board (FAB) will be reviewing the cash reserve policy over the next few months and that will be reflected in this rate study. In addition, UFS will be evaluating current rates, cost of service shift, and the customer charge to verify collection is still progressing as intended. The purchase power cost projected verses actual in the previous rate study were within -0.36% and 4.36% for year 2019 and 2020 respectively and is anticipated to be within 1.37% in 2021. Since its implementation in 2016, the Purchased Power Adjustment (PPA) has performed as designed, allowing the utility to maintain its required investment in infrastructure. This study will determine the adjustment of the base PPA going forward as well as evaluate the financial value of renewables and co-generation to the Utility. The Utility has also requested that the consultant evaluate time of use rates in addition to incentives for off peak electric vehicle charging.

Staff recommends waiving the procurement code and contracting with UFS for \$68,090 to complete a comprehensive cost-of-service rate study for the years 2021-2023.

FISCAL IMPACT:

CIP #: N/A

The 2021 Comprehensive Electric Utility Cost-of-Service Rate Study is expensed to the professional service account below. A total of \$102,250 has been budgeted for the 2021 Electric Rate Study in CY2021. The requested award of \$68,090 is within the budgeted amount for this expense.

Account Number	Fund Description	Total Budget Amount
40101300-531309	Electric Utility Fund	\$102,250