



Legislation Text

File #: 21-1341, Version: 1

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Conduct the first reading of an ordinance amending Title 8 (Public Utilities) Chapter 1 (Electricity) Article C (Electric Service Rates) of the Naperville Municipal Code

DEPARTMENT: Electric Utility

SUBMITTED BY: Brian Groth - Electric Director

BACKGROUND:

Naperville's Electric Utility ("Utility") provides high-quality, reliable electric service to more than 60,000 customers. Over the last 50 years, the Utility has purchased power through a variety of sources including ComEd, J. Aron/Goldman Sachs, and currently through an agreement with the Illinois Municipal Electric Agency (IMEA).

The last Electric Utility rate study was conducted in 2018 to help plan for financial needs through 2021. The City Council approved a 2% yearly rate decrease for each customer class. No cost-of-service shifts were recommended in this study.

At this time, the Utility's cash balance has followed very closely with the 2018 rate study design and is expected to be at \$30 million at the end of 2021.

The Utility is in the third and last year of the 2018 rate study. In preparation for the next three years, staff contracted with Utility Financial Solutions (UFS) to perform the rate study providing a financial plan through 2024.

DISCUSSION:

Study Recommendations

The Electric Utility has developed the following four recommendations for the next three years. Many factors influenced their development, including compliance with City financial principles and policies, limiting debt, fully funding capital through rates, finding the appropriate level of capital funding to ensure high reliability, and competitiveness in the residential and commercial marketplace.

1. Approve staff recommended rate increases in various customer classes

The attached schedule of rates and charges will provide sufficient revenues in the study years to address anticipated operating expenses and the staff-recommended capital program. The rate study calls for an .5% revenue adjustment, which also takes into account a cost-of-service shift to ensure large commercial and primary customers are not subsidizing residential and small commercial customer. The impact on rates by percentage for each class is shown in the table below.

	2022	2023	2024
Residential	0%	1.00%	1.00%
Small Commercial (GS1)	0%	0.90%	0.90%
Large Commercial (GS2)	0%	0.00%	0.00%
Outdoor Metered Lights (OLR)	0%	0.00%	0.00%
Primary - Industrial	0%	-0.40%	-0.40%
Transmission	0%	0.10%	0.10%

2. Approve an increase in the PPA base rate from \$0.0855 to \$0.0860

A PPA is a tool used by utilities to help ensure that customers are not over or under charged for the electricity they use. The PPA will recoup or credit the difference in purchased power costs with the goal of being revenue neutral over the three-year rate study.

Through the rate study, it is recommended that the baseline purchased power cost amount that determines the PPA be raised to \$.0860 in order to be revenue neutral. Residents can expect that power prices will generally be lower in the winter months and higher in summer months.

3. Increase capital spending by \$1 million to a total of \$15 million per year for the next three years (2022-2024)

Over the next five years, the Electric Utility will undergo improvements at its Tollway substation. Improvements are necessary to reliably supply energy to downtown Naperville as well as large customers along I-88.

4. Examine moving forward with Time of Use (TOU) rate implementation

Utility staff will begin the process of implementing TOU rates into its rate structure. Time of Use rates allow the Utility to incentivize those customers that can shift their energy usage to off-peak hours. This shift not only reduces the capacity required to be purchased by the City’s energy partner (IMEA), it also improves the Utility’s load factor, which lowers energy costs and ensures that utility infrastructure is efficiently utilized.

The implementation plan will include testing of all billing and financial systems to ensure compatibility with the rate structures, policy creation for those that chose alternate rate structures, as well as communication to residents and commercial customers.

Areas to Watch

With the implementation of the above recommendations, the Electric Utility’s projected cash balance at the end of the rate study is \$36.3 million. The analysis completed through the 2021 rate study recommends a minimum reserve requirement of \$35 million, with a PPA in place. The Electric Utility is projected to be at this reserve level at the end of 2024 with these proposed recommendations.

Staff continuously monitors legislation on all levels understanding that new legislative mandates may have an impact on future purchase power cost. Any new legislative mandates that may impact purchase power cost will be analyzed, and the PUAB and City Council will be informed of any recommended adjustments that may be required.

Public Outreach

In late summer, staff met with representatives from the Naperville Area Homeowners Confederation, the Naperville Area Chamber of Commerce, and Naperville Development Partnership to review the concepts behind the rate study and anticipated bill impacts. The groups understood the goals of the study and the four recommendations. Staff also discussed the recommendations with the top 12 largest customers in both the Water and Electric utilities.

On Sept. 23, the PUAB reviewed the requests and proposed rate structure and unanimously approved staff's recommendations.

FISCAL IMPACT:

Rate adjustments of 0% on January 1, 2022; 0.5% revenue adjustment on January 1, 2023; and 0.5% revenue adjustment January 1, 2024 across all rate classes.